



SUPPLEMENT: S CORPORATIONS (1120S)

Drake Software User's Manual

Tax Year 2014

**Supplement: S Corporations
(1120S)**

Support.DrakeSoftware.com
(828) 524-8020

Copyright

The *2014 Drake Software Manual Supplement: S Corporations*, Drake Tax Software, and any other related materials are copyrighted material. All rights are reserved by Drake Enterprises, LTD, including all ownership rights. This document, associated software, and related material are the property of Drake Enterprises, LTD.

Drake Enterprises, LTD, hereby authorizes you to download, display, print, and reproduce the material in this document in an unaltered form only for your personal, non-commercial use or for non-commercial use within your organization. Copyright, trademark, and other proprietary notices may not be removed.

© 2014 Drake Enterprises, LTD. All rights reserved.

While every attempt has been made to produce an accurate and complete manual, there is no warranty, expressed or implied, to that effect. Drake Enterprises, LTD, assumes no liability for damages or claims resulting from the use of the information contained herein.

Trademarks

The Drake Software Logo and Drake Tax are registered trademarks of Drake Enterprises, LTD.

Microsoft® and Windows® are either registered trademarks or trademarks of Microsoft Corporation in the United States and other countries.

Other product names mentioned in this manual may be trademarks or registered trademarks of their respective companies.

Table of Contents

What's New in Drake for S Corporations	1
Form 3115 Change	1
Schedule L and M-2	1
Force Printing Schedule M-3	2
Force-Printing Final End-of-Year Totals	2
Schedule K	2
Safe Harbor Elections	3
Estimated Taxes Screen	3
Other Changes	3
Before You Start.	4
Updating a Prior-Year Return in Drake	4
Indicating an S Corporation	4
Other Information and Overrides	5
Header Information	5
Name and Address	5
Tax Year	5
Boxes A through I	6
Income and Deductions	7
Gross Receipts	7
Cost of Goods Sold (Form 1125-A)	7
Ordinary Gains and Losses	8
Other Income (Loss)	8
Compensation and Wages	9
Compensation of Officers (Form 1125-E)	9
Repairs and Maintenance	10
Bad Debts	10
Rents	10
Taxes and Licenses	10
Interest	11
Depreciation	11
Depletion	12
Advertising	12
Pension and Profit-Sharing	12
Employee Benefits Program	12
Other Deductions	12
Tax and Payments	13
Net Passive Income	13
Schedule D	13
Estimated Tax	13
Payments with Extensions	14
Tax Paid on Fuels	14
Underpayment of Estimated Tax	14
Late-Filing Penalty	14

Direct Deposit of Refunds	14
International ACH Transactions	15
Electronic Funds Withdrawal (Direct Debit)	15
Program Defaults and Overrides	15
Required Information	15
Withdrawal from Multiple Accounts	16
Filing an Extension	16
Signing the Return	16
Amending a Return	17
Additional Information	18
Schedule B	18
State-specific Information	18
Schedule K: Shareholders' Pro Rata Share Items	20
Navigation	20
Schedule K-1 for 1120S (Shareholder Information)	21
Ownership Changes	21
IRS K-1 Codes	22
Multiple Shareholders	22
Rounding Partner	22
Override Fields	23
Foreign Addresses	23
K-1 Export	23
Supplemental Info	24
Domestic Production Activities	24
K-1 Cover Letters	25
Shareholder's Adjusted Basis Worksheet	26
Schedule L: Balance Sheet Per Books	27
Flow of Information	27
The SCH2 Screen	28
Autobalance	29
Schedules M-1, M-3 (Reconciliation of Books/Return)	29
Schedule M-1	29
Schedule M-3	31
Schedule M-2 (Analysis of Accounts)	31
Entering Distributions	31
Column A, Accumulated Adjustments Account	32
Column B, Other Adjustments Account	33
Column C, Undistributed Taxable Income Previously Taxed	33
Rental Activities	34
Line 14, Depreciation	34
Line 15, Other Expenses (list)	35
Viewing Rental Activity Information	36
Credits and Adjustments	36

Elections	37
Safe Harbor Elections	37
Making an Election in Drake	38
Election Statements	38
Safe Harbor Elections	39
Making Changes on the Fly	39
Suppressing/Forcing Items	40
Overriding Other Setup Options	40
Electronic Filing	41
Additional Return Types	41
Common Error Codes	42
Binary Attachments	43
The PDF Attachment Process	43
Printing Generated Documents	45
Importing Trial Balance Information	46
Preparing to Use Trial Balance Import	46
Preparing Financial Data for Import	48
Entering Financial Data	49
Saving a File	51
Importing Data into a Return	51
Special Conditions	52
Form 3115, Application for Change in Accounting Method	56
Schedule E	63
Attachments	64
Appendix A: Trial Balance Import	A-1
Index	vii

This page intentionally left blank.

S Corporations (1120S)

The basics of data entry for an S corporation (1120S) return are the same as for a 1040 return. Field- and screen-level help, shortcut keys, and navigation throughout data entry all function as they do in the 1040. See the *Drake Software User's Manual: Tax Year 2014* for the basics of using the program.

What's New in Drake for S Corporations

Drake programs its tax software according to the latest IRS rules and regulations. The 2014 program reflects all changes to credits and deductions, including discontinuations. For details on the new regulations for the 2014 tax year, see the IRS instructions for Form 1120S.

The following changes have been made to the 1120S in Drake.

Form 3115 Change

Form 3115, Application for Change in Accounting Method, is now eligible for e-file. See "Form 3115, Application for Change in Accounting Method" on page 57 for details of using the Drake screens to file this form.

Schedule L and M-2

Schedule L and Schedule M-2 reconciliation totals are displayed on screens **L** and **M2** to facilitate reconciliation of the balance sheet (item #1 in Figure 1 on page 2).

Schedule L - Balance Sheet

Note: Use the SCH2 screen for required detail on lines 6, 9, 18, 21, and 25. The amounts entered there flow to the appropriate lines when the return is calculated.

NOTE: The retained earnings account can be automatic; however, it is also used as the balancing account. If an amount is entered, it is compared with the computed amount. If no amount is entered, no checking is done, and the balance sheet is forced to balance by the program.

NOTE: Auto-balance can be turned off from the PRINT screen.

☒ Force-print Schedules L and M-1

☒ Force-print final end of year

		Beginning of Year	BOY Totals	End of Year	EOY Totals
		(a)	(b)	(c)	(d)
1 Cash.....	1		54321		12345
2a Trade notes & accounts recv.....	2a		0		0
2b Less allowance for bad debts.....	2b	1111	(-1111)	222	(-222)
3 Inventories.....	3		123456		1,0004
4 U.S. government securities.....	4		0		0
5 Tax-exempt securities.....	5		4567		6555
6 Other current assets.....	6		2345		1111

SCH2 Screen

Figure 1: Beginning- and End-of-Year totals displayed on L screen (#1); force printing end-of-year totals (#2)

Note that the totals from the balance sheet's subsidiary schedule (**SCH2 screen**) also appear in the **BOY Totals** and **EOY Totals** columns of the **L** screen.

If you make any changes to the data, recalculate the return (press CTRL+C) for those changes to be displayed on the screen.

TIP To speed up calculation of returns that contain multiple states, open screen **1** and select **0** from the **Resident state** drop list.

Force Printing Schedule M-3

Page 1 of Schedule M-3 is required if the balance sheet's total assets at the end of the year equal or exceed \$10 million, and pages 1-3 of Schedule M-3 and Schedule M-1 are required if the total assets equal or exceed \$50 million. If the corporation's assets do not equal or exceed \$10 million but you want to voluntarily file Schedule M-3, or if the corporation's assets do not equal or exceed \$50 million and you wish to file the complete Schedule M-3, go to screen **M3** and make a selection from the **Force print M-3** drop list. Choose to print just page 1 of Schedule M-3 or the complete M-3.

See "Schedules M-1, M-3 (Reconciliation of Books/Return)" on page 30 for more details on these schedules.

Force-Printing Final End-of-Year Totals

Normally, if you mark **Final** on screen **1**, Drake "zeros out" the **EOY Totals** column of Schedule L. A check box has been added to screen **L** (item #2 in Figure 1) to force those totals to be displayed in the **EOY Totals** column.

Schedule K - Business Activities Statement

A Business Activities Statement (screen **BAS**) has been added to the 1120S package. This statement allows you to break down an S corporation's Schedule K items by business activity. (See Figure 2 on page 3). A K-1 statement by business activity is also provided.

	Business Activity Statement	2014
(Keep for your records)		
Sub-Corporation Name		EIN
Ess Bee Ess		40-0001120
Shareholder Name		SSN/EIN
Dante Alighieri		123-12-3123

ACTIVITY NAME(S)	Activity 1 - Restaurant
	Activity 2 - Gift Shop
	Activity 3 - Museum

LINE REFERENCES	1	2	3	Unallocated	Sch K1 Total
1. Ordinary Business Income (Loss)	1,949	1,611	1,559	1,147,151	1,152,270
2. Net Rental Real Estate Income (Loss)	See K1__8825				
3. Other Net Rental Income (Loss)	989	18	321	(1,328)	
4. Interest Income	858	35	177	(1,070)	
5a. Ordinary Dividends	191	52	525	(610)	158

Figure 2: Business Activity Statement

Rounding Shareholder

By marking a check box on screen **K1**, you can now select which should be the “rounding” shareholder. That shareholder will be listed last on the list of shareholders and will be the one who receives any balancing amount on Schedule K-1 when the return is calculated.

400002222 Type..... ☐ ☒ Make this Shareholder the Rounding Shareholder

William Carter

234 Main Street

Franklin

NC 28734 Resident state NC

<Click to Access>

282-828-2822

Figure 3: Marking the “rounding” shareholder on screen K1

If you do not make a selection, the program designates as the rounding shareholder the last shareholder you entered. If you select more than one rounding shareholder, the program generates a Return Note informing you that you've chosen more than one, informs you that the first shareholder you entered will be used as the rounding shareholder, and lists all those you have included as rounding shareholders.

Safe Harbor Elections

A check box was added to screen **4562** to apply a small taxpayer Safe Harbor election to a building listed in the **Description** field. An election statement will be produced and the building description as entered in the **Description** field will be included in the election statement.

See “Safe Harbor Elections” on page 39 for more.

Estimated Taxes Screen

The **ES** screen has been redesigned this year to provide a way to e-file state estimated tax vouchers and payments, which is required in some states. The functionality of the federal section of the **ES** screen is unchanged.

The other change is for estimated taxes from multiple states or cities. Rather than filling out several **State/City** sections on the **ES** screen, now you press PAGE DOWN and go to a new **ES** screen.

For details on using the enhanced **ES** screen for filing federal estimated taxes, and on e-filing and paying state estimated taxes, see "Estimated Taxes," in Chapter 5 of the *Drake Software User's Manual: Tax Year 2014*.

Other Changes

Following are other changes to the 1120S package for 2014:

- If the shareholder, or owner had applied for an SSN or EIN but had not yet received an ID number, Drake auto-fills the ID field. Type F into the **ID** field and FOREIGNUS is entered, or type A and APPLD FOR appears in the **ID** field.
- For electronic payments on extensions, the program now produces Form 8878-A, the IRS e-file Signature Authorization for Form 7004.
- Fields added to the **8941** screen allow you to complete the two new lines at the top of Form 8941, Credit for Small Employer Health Insurance Premiums. These new lines, added by the IRS, determine if an employer provided health care coverage for its employees as mandated by the Affordable Care Act, and determines if the business is eligible to use Form 8941.

Before You Start

Actions you might need to take before starting an 1120S return in Drake include:

- Updating a prior-year return (if you prepared the tax return last year)
- Electing as an S corporation (if the corporation was not an S corporation last year)

Updating a Prior-Year Return in Drake

A prior-year return can be updated in three ways:

- As a single return (updated one at a time) using **Last Year Data > Update Clients 2013 to 2014** (recommended)
- When you open the return for the first time in the 2014 program and are prompted to update it
- With all other returns in the program using **Last Year Data > Update Clients 2013 to 2014** (not recommended)

When you update an 1120S return that was previously marked as "final," the program informs you that the return was marked final before prompting you to proceed.

Indicating an S Corporation

If the corporation is electing as an S corporation for the first time, it is necessary to indicate this in the program.

S Corp Election

On screen **1** in the **General Information** section, line **A**, enter the date of election as an S corporation. On line **E**, enter the date incorporated. On line **G**, mark the check box, "First year as an S corporation."

Form 2553, Election by a Small Business Corporation, is required if the entity is making the election with the return. In Drake, use screen **2553**, accessible from the **Other Forms** tab or by clicking the **Form 2553** link on screen **1**.

NOTE

If attaching a signed Form 2553 to the return as a PDF, mark the **Attaching Form 2553 as a PDF document** box on screen **1**. If not sent as a PDF, the form must be mailed separately to the IRS *before* filing the tax return. See Form 2553 instructions at www.irs.gov.

Changing File Type

To change a "C" corporation to an S corporation (1120 to 1120S):

1. Go to **Tools > File Maintenance > Change File Type**.
2. Enter the EIN of the entity.
3. Click **Continue**.
4. Select the new return type (**Sub-S Corp 1120S**).
5. Click **Continue** to save changes.
6. Click **OK**.

Other Information and Overrides

Use screen **1** to enter the following additional information:

- **Resident State** — If the corporation has a mailing address in one state but does business in another, select the state in which the corporation does business from the **Resident State** drop list.
- **Drake Codes and Overrides** — Screen **1** includes fields for miscellaneous codes, invoice numbers, and several overrides. See "Listing a Different Firm, Preparer, or ERO on a Return" in Chapter 2 and "Miscellaneous Codes" in Chapter 5 of *Drake Software User's Manual: Tax Year 2014* for more information.

Header Information

Screen **1** contains fields for the general information that is printed in the top section of page 1 of Form 1120S.

Name and Address

Use screen **1** to complete the corporation name and address section of Form 1120S. For state purposes only, if the corporation has an alternate address (such as a P.O. box), you can enter that address on screen **2**, in the **Address Line 2** field at the bottom

of the screen. (Access screen **2** from the **States** tab, or enter 2 in the selector field and press ENTER.)

Tax Year

The software uses the calendar year as the default period for all corporate returns; no date entries are required on screen **1** for a December 31 tax year end.

NOTES

The program adjusts calculations for depreciation and for gains and losses on sales of assets based on the entity's tax year.

For information on filing with a 52-53-week year, see "Electing a 52-53-Week Year (Initial Return)" on page 42.

Fiscal and Calendar Years

If the S corporation uses a fiscal year (where the year begins in the current calendar year and ends in the next), specify the beginning and ending dates in the **If not calendar year** section of screen **1**.

Short-Year Returns

An entity may have a short-year return if changing accounting periods with IRS approval (Form 3115), or if this is its first or last year in business and the tax year is not a full year.

To indicate a short-year return, use the fiscal year date fields on screen **1** to indicate the beginning and ending dates for the current year. (These fields should *not* be used if the entity is filing a full calendar-year return.)

If filing a short-year return (other than an initial or final return), you will need to provide an explanation. To do so, go to the **ELEC** screen (accessible from the **Miscellaneous** tab) and select an explanation from the **Other short-year reason** drop list. The explanation will be displayed at the top of the first page of the tax return. If you do not select an explanation, an EF message will be generated with the return and the return will not be eligible for e-file.

For more information on short-year explanations, see IRS Pub. 4163.

NOTES

The program may not correctly calculate depreciation, gains, or losses for a short-year return. Depreciation for a short-year return can be entered on screen **4562** and screens **6**, **7**, **8**, and **9**.

First-Year Returns

An S corporation filing a first-year return must use the fiscal year fields in the **If not calendar year** section of screen **1** if the date of election as an S corporation occurs *after* the start of the tax year—if the date entered on line **A** of the **General Information** section of screen **1** comes after January 1, 2014.

In the **Fiscal year begins** field, enter the date of election as an S corporation. In the **Fiscal year ends** field, enter the end of the calendar year (or the end of the fiscal year if not using a calendar year).

Boxes A through I

Enter most information for boxes A through I (top of Form 1120S) on screen **1**. Note that boxes C ("M-3 attached") and F ("Total assets") are completed automatically by the program based on data entered elsewhere. Other boxes are:

- Box A — S election effective date
- Box B — Business activity code (From screen **1**, choose a code from the line **B** drop list, or click in the line **B** field and press CTRL+SHIFT+S to search for a code)
- Box D — Employer Identification Number (EIN) (program uses setup data as default)
- Box E — Date incorporated
- Item G — Indicates first year as S corporation and inclusion of Form 2553 with return
- Item H — Check boxes for final return, name change, address change, amended return, and S election termination or revocation
- Item I — Number of shareholders during the year (completed automatically based on the number of K-1s; number can be overridden on line I of screen **1**.)

NOTES

Enter accounting method at the bottom of screen **1**.

The **Client information** fields at the bottom of screen **1** are for reports only and not included in the e-file record.

Income and Deductions

Income and deductions are entered primarily on the **INC (Income and Common Schedule K Items)** and **DED (Deductions)** screens.

NOTE

For information on the Schedule K items at the bottom of the **INC** screen, see "Schedule K: Shareholders' Pro Rata Share Items" on page 21.

Gross Receipts

Enter gross receipts or sales (Form 1120S, line 1a) and returns and allowances (line 1b) on the **INC** screen.

The program calculates gross receipts or sales after returns and allowances based on gross receipts, sales, and any direct entry on line 1b.

NOTE

The IRS does not require a detail (CTRL+W) worksheet for gross receipts; therefore, if you are using the trial balance import feature, do *not* include a detail worksheet for this line—or for any other line that does not require a detail worksheet. For more on the trial balance worksheet, see "Importing Trial Balance Information" on page 47.

Cost of Goods Sold (Form 1125-A)

For cost of goods sold (COGS), complete screen **A** (**Form 1125-A, Cost of Goods Sold**).

NOTE

On screen **A**, items 9a through 9f are direct-entry fields and follow the format of IRS Form 1125-A. For more information on completing these fields, press F1 or consult the IRS instructions.

Inventory

Inventory amounts entered on lines 1 and 7 of screen **A** automatically flow to Schedule L, line 3 ("Inventories"). Note that the **Inventories** fields on screen **L** (**Assets, Liabilities and Equity**) are overrides. Anything entered there overrides the inventory data that flows from screen **A**.

Line 5, Other Costs

Line 5 of Form 1125-A is designated for any applicable costs not entered on the previous lines. In Drake, two fields on screen **A** are provided for line 5: one for other costs excluding depreciation, and one for depreciation (Figure 4).

4	Additional section 263A costs.....
5	Other costs - excluding depreciation..
5	Depreciation.....
7	Inventory at end of year.....

Figure 4: Other Costs and Depreciation

In the **Depreciation** field, enter any depreciation that relates to the cost of goods sold (unless the amount is flowing from the **4562 Detail** screen with **COGS** selected from the **For** drop list). (Note that this field on screen **A** is an override field; an entry here overrides the calculations from the **4562** screen.) Amounts entered in this field automatically adjust the total depreciation that is carried to page 1 of Form 1120S. For **Other costs - excluding depreciation**, use a CTRL+W worksheet. The depreciation amount is included on the statement for other costs and should not be included in the **Other Costs** worksheet.

NOTE

Line **14b** on the **DED** screen is for Form 4562 depreciation that is not entered on screen **A** or elsewhere on the return.

Importing Trial Balance to Form 1125-A

If using the trial balance import feature (see "Importing Trial Balance Information" on page 47), enter depreciation amounts directly into the appropriate fields on the trial balance worksheet, *not* into the fields in data entry. When the trial balance is imported, the COGS depreciation expense amount flows directly to the appropriate line of Form 1125-A and is calculated accordingly.

Ordinary Gains and Losses

The amount on line 4 ("Net gain (loss) from Form 4797, Part II, line 17") of Form 1120S flows from Form 4797. Amounts can also flow from screen **4562**, but only if that screen shows assets sold and property type.

Other Income (Loss)

Enter all amounts for line 5, Other income (loss), on the **INC** screen. **INC** screen data is displayed on attached statements in View mode.

Amounts from the following screens also flow automatically to line 5:

- **6478** (Form 6478, Biofuel Fuels Credit)
- **8864** (Form 8864, Biodiesel and Renewable Diesel Fuels Credit)

Additional fields on the **INC** screen include:

- Amount of credit for tax on fuels
- Interest income on receivables
- Recoveries of bad debts
- Section 481 adjustments
- State tax refund
- Income from insurance proceeds

To enter income or loss from a partnership, estate, or trust, use screen **K1P** or **K1F**. (Click the screen links on the **INC** screen or access them from the **Other Forms** tab).

To enter additional sources of income not shown, use the **Other Income (itemize)** field on the **INC** screen. (An entry in this field creates a CTRL+W worksheet.)

Compensation and Wages

Enter shareholder compensation and employee wages on the **DED** screen. Drake has two fields each for officer compensation and employee salaries/wages: one for non-shareholders, and one for shareholders.

NOTES

The **Salaries and wages to non-shareholders** field is an adjustment field. An amount entered here is combined with any amount entered in the **Labor hired** field on screen **F**.

The shareholder fields are used for calculating section 179 income limitations; see the WK_S179L worksheet in View mode.

Credit Adjustments

A credit adjustment is made for the following forms:

- Form 5884, Work Opportunity Credit
- Form 8844, Empowerment Zone and Renewal Community Employment Credit
- Form 8845, Indian Employment Credit

The adjustment is indicated on Form 1120S with the ATT_SSW literal. (Figure 5 on page 10). Actual adjustments are shown on the ATT_SSW worksheet in View mode.

6	Total income (loss). Add lines 3 through 5	6	81,118
7	Compensation of officers	7	
8	Salaries and wages (less employment credits)	8	(15,991)
9	Repairs and maintenance	9	
10	Bad debts	10	

Figure 5: ATT_SSW literal on Form 1120S

Compensation of Officers (Form 1125-E)

Officer Information

Use screen **E** to enter officer information and compensation amounts. Press PAGE DOWN to enter additional officers. Screen **E** totals are calculated and carried to line 7 of Form 1120S.

The total of officer compensation can be entered in the **Officer Compensation** override field on the **DED** screen (generally used when Form 1125-E is not required). An entry in that field overrides any calculations from screen **E**, changing lines 12 and 27 of the 1120S but not Form 1125-E.

NOTES

For privacy reasons, you can truncate SSNs on Form 1125-E by entering only the last four digits of the officers' SSNs in the **ID number** field.

To do so, enter the first five digits of the SSN as "0"s, and then enter the final four digits of the SSN. Press CTRL+F to "force" the program to accept the number.

For example, enter SSN 123-45-6789 as 000-00-6789.

Screen E Check Boxes

Screen **E** has two check boxes: **Signs return**, and **Books in care of**. Mark the applicable box on the screen that identifies the officer who either signs the federal or state paper returns, or is the contact person for the books (state return only; does not affect the federal return unless there is no **PIN** screen).

Ownership & Participation

The **Ownership and Participation** fields on screen **E** are required. Fields are as follows:

- **Total** — Enter the officer's ownership percentage.
- **Common** — Enter the percentage of common stock owned by the officer.
- **Preferred** — Enter the percentage of preferred stock owned by the officer.
- **Time** — Enter the percentage of time the officer devotes to the corporation.

Enter percentage amounts in whole numbers. For example, enter 40 for 40%.

Repairs and Maintenance

Enter repair and maintenance costs on the **DED** screen. An amount entered there is combined with the amount, if any, entered in the **Repairs and maintenance** field on screen **F**.

Bad Debts

Use the **Bad debts** field on the **DED** screen to enter the total debts that became worthless in whole or in part during the year, but only to the extent that such debts related to a trade or business activity.

NOTES

Enter deductible non-business bad debts as a short-term capital loss on screen **8949 (Sales and Other Disposition of Assets)**.

Cash-method S corporations cannot take a bad debt as a deduction unless the amount was previously included in income.

Rents

Use the **DED** screen to enter rent paid on business property used for a trade or business activity. If the corporation rented or leased a vehicle, enter the total annual rent or lease expense incurred in the trade or business activity of the entity, and then complete Part V of the **4562** (screens **8** and **9**).

NOTE

The **Rents** field is an adjustment field. An amount entered here is combined with the amount, if any, entered in the **Rent** fields on screen **F**.

Taxes and Licenses

Enter tax and license amounts on the **DED** screen. Amounts are combined and the sum generated on Form 1120S, line 12 ("Taxes and licenses"). Note that credit from Form 8846 (Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips) should be entered on screen **8846**, which is accessible via a link from the **DED** screen. These amounts also appear on the "Taxes and Licenses Attachment," referred to on line 12 with the printed "ATT_STL" reference. (Figure 6.)

The image shows a portion of Form 1120S, specifically lines 10 through 15. Line 12, 'Taxes and licenses', has the value '11,457' entered. A red circle highlights the text 'ATT_STL' next to the value. The table below represents the data shown in the screenshot.

10	Bad debts	10	
11	Rents	11	
12	Taxes and licenses	12	11,457
13	Interest	13	
14	Depreciation not claimed on Form 1125-A or elsewhere on return (attach Form 4562)	14	
15	Depletion (Do not deduct oil and gas depletion.)	15	

Figure 6: Notification on line 12 of the 1120S return that the Taxes and Licenses attachment has been produced with the return.

To keep the notification from appearing on line 12 of the return, go to the **PRNT** screen and select **Suppress printing of form and attachment references**.

State tax amounts (income tax and franchise tax) entered on the **ES** (Estimated Taxes) screen are carried to the tax computation (ATT_TAX) worksheet. The state tax amount carried from the **ES** screen may differ depending on which method of accounting (cash or accrual) is used.

Interest

Using the 1120S instruction guidelines, enter interest expense on the **DED** screen. Note that the **Interest expense** field is an adjustment field. Any amount entered here is combined with the amount, if any, entered in the **Interest** fields on screen **F**.

Depreciation

Enter depreciation on the **4562** screen. Select a form from the **For** drop list to associate the depreciable item with the correct form or activity. Data from the **4562** screens is calculated and carried to Form 1120S and/or to the selected schedules or forms.

For more information on depreciation and the **4562** screen in Drake, see the *Drake Software User's Manual: Tax Year 2014*.

Line 14, Depreciation

Line 14 of Form 1120S is reserved for depreciation that (1) is from Form 4562, and (2) is not claimed on Form 1125-A or elsewhere. While the program pulls data from the **4562** screen for this line, it also provides field **14b** on the **DED** screen specifically for depreciation that is claimed elsewhere.

Both lines **14a** and **14b** on the **DED** screen are adjustment fields.

- **Line 14a** — See field-level help for further instructions and information on how this field ties in to Form 4562.
- **Line 14b** — Drake recommends entering depreciation on the **4562** screen, and then selecting **COGS** from the **For** drop list at the top of the screen. You can also use screen **A** (rather than the **DED** screen) to enter depreciation claimed on Form 1125-A. An entry on screen **A** adjusts any entry on line **14b** of the **DED** screen and is calculated into the total deductions for page 1 of Form 1120S. If there is an entry on line **14b** but not on screen **A**, only the line **14b** amount will be calculated into total deductions.

Depletion

Enter depletion amounts on the **DED** screen. If the corporation claims a deduction for timber depletion, complete and attach Form T, Forest Activities Schedules. (Attach as PDF to e-filed returns. (See “The PDF Attachment Process” on page 44.) Do not deduct depletion for oil and gas properties. (Each shareholder should figure depletion on these properties under section 613A(c) (11).)

Advertising

Enter advertising expenses on the **DED** screen.

Pension and Profit-Sharing

Enter pension and profit-sharing expenses on the **DED** screen. Press F1 for information on what expenses to enter. The software reduces the expense based on the credit amount calculated from Form 8881, Credit for Small Employer Pension Plan Startup

Costs. Note that this is an adjustment field; the software uses any amount entered here to adjust the amount flowing from Schedule F to the 1120S.

Employee Benefits Program

Enter on the **DED** screen amounts for fringe benefits paid or incurred on behalf of employees owning 2% or less of the corporation's stock. Do not include with these amounts anything that is an incidental part of a pension, profit-sharing, etc., plan or amounts reported elsewhere on the return.

Report amounts paid on behalf of more than 2% shareholders on line 7 ("Officer compensation") or 8 ("Salaries and wages"), whichever applies. A shareholder is considered to own more than 2% of the corporation's stock if that person owns, on any day during the tax year, more than 2% of the outstanding stock of the corporation or stock possessing more than 2% of the combined voting power of all stock of the corporation.

Note that the field for line 17 is an adjustment field. An amount entered in here adjusts the amount flowing to Form 1120S from Schedule F, line 17.

Other Deductions

Enter all other deductions on the **DED** screen. Drake incorporates the total into line 19, "Other deductions," on Form 1120S.

The following deductions, credits, adjustments, and exclusions also flow to line 19:

- Amortization from Form 4562
- Credit adjustment from Form 8820, Orphan Drug Credit
- Exclusion from Form 8873, Extraterritorial Income Exclusion
- Credit from Form 8941, Credit for Small Employer Health Insurance Premiums

Tax and Payments

Screen 4 has fields for completing the "Tax and Payments" section of Form 1120S. Note that some fields are overrides. Press F1 to view more information on a field.

Net Passive Income

Line 22a, "Excess net passive income or LIFO recapture tax," could apply to an S corporation if it was formerly a "C" corporation or if it engaged in a tax-free reorganization with a "C" corporation.

To determine if the corporation must pay the tax, complete the worksheet fields on the lower half of screen **4**. If completing the IRS worksheet, enter the worksheet results on screen **4**. Enter LIFO recapture directly on screen **4**.

NOTE To force the line 22a worksheet to be printed, select the applicable box on screen **4**.

Schedule D

Use screen **8949** to enter capital gains and losses. The net gain from screen **8949** is carried to lines 7 and 8 of Form 1120S, page 3, Schedule K. Use screen **8949** to enter data for Parts I and II of Schedule D (Form 1120S), Capital Gains and Losses and Built-in Gains. Use the **D2** screen for Part III, "Built-in Gains," of Schedule D (Form 1120S). For information on using the **8949** import feature in Drake, see "Form 8949 Imports" in Chapter 5 of the *Drake Software User's Manual: Tax Year 2014*.

Estimated Tax

The 1120S does not have a federal estimated tax voucher. Estimated tax payments are required only in certain situations. An S corporation must make electronic deposits of employment, excise, and corporate income taxes using the Electronic Federal Tax Payments System (EFTPS).

NOTE Most states do not allow estimates outside of the EFTPS system.

Use the **ES** screen (available from the **Miscellaneous** tab or from a link on screen **4**) to enter federal and state estimated taxes paid in 2014. If the return was updated in Drake from 2013, this information is carried over. Note that this information will be overridden by any entry in the **Current-year estimated tax payments** field on screen **4**.

Use the **ES** screen for 2015 estimated payments. Future year amounts appear on the ES_SUM worksheet generated with the return. To enter the amount to be credited, use the **OP to 2015** field. Note that this information will be overridden by any entry in the **Amount to be credited to next year's estimated tax** field on screen **4**.

Payments with Extensions

To make a payment with an extension request, enter the amount being paid in the **Amount paid with extension** field at the bottom of the **7004** screen (available from the **Other Forms** tab or from a link on screen **4**). If an extension was previously requested and a payment was made then, enter the amount paid on screen **4**, line 23b.

Tax Paid on Fuels

Use screen **4136** to enter information for Form 4136, Credit for Federal Tax Paid on Fuels. Note that this screen consists of two screens, with lines 1 through 8f on the first screen. Press PAGE UP or PAGE DOWN to go from screen to screen.

Underpayment of Estimated Tax

For underpayment of estimated tax, complete all applicable fields on screen **2220**. (Note that this screen also consists of two screens.)

Late-Filing Penalty

Drake does not calculate a late-filing penalty. You can choose to enter a late-filing penalty on screen **4**, line 24, "Estimated tax penalty."

IMPORTANT

If you enter a late-filing penalty on screen **4**, line 24, then Form 2220, Underpayment of Estimated Tax, will *not* be included in the e-file transmission.

Direct Deposit of Refunds

The IRS requires that Form 8050, Direct Deposit of Corporate Tax Refund, be submitted with an e-filed return in order for a corporation's refund to be directly deposited. To complete this form in Drake, use the **DD** screen (Figure 7).

Figure 7: Federal section of **DD** screen (also **8050** screen)

When filling out the **DD** screen:

- If the federal refund is to go to the account listed, select **Yes** for the **Federal Account** selection; otherwise, select **No**. (Default is **Yes**.)
- If a state refund is to go to the account listed, select the state abbreviation from the **State/city selection** drop list.
- Enter the name of the financial institution, the routing number (RTN), the account number, and the type of account (**Checking** or **Savings**).
- Re-enter the RTN, account number and type of account to verify.

If receiving refunds from different state tax authorities, use the **State Account** sections on the **DD** screen to indicate where other state refunds should be deposited.

International ACH Transactions

In 2009, state taxing agencies added foreign account questions to their forms to comply with NACHA rules regarding International ACH transactions (IAT); however, processing IAT is not yet supported by any federal or state tax authority. If you were to indicate that the account was outside the U.S., the state tax authority would automatically ignore the account information and either issue a refund via paper check, or contact the corporation requesting the payment of a balance due via check or domestic bank account. If you indicate that an account is located outside of the U.S., Drake Software generates an EF message instructing you to choose an account located in the U.S.

For more information, see **Screen Help** on the **DD** screen and **PMT** screens.

Electronic Funds Withdrawal (Direct Debit)

Use the **PMT** screen, accessible from the **General** tab, to indicate that the balance due for an e-filed return should be withdrawn (direct-debited) from an account.

Program Defaults and Overrides

By default, the program indicates that the entire balance due (the "Amount owed" line of Form 1120S) is to be withdrawn on the return due date. To indicate otherwise, complete the **Requested payment date** override field for the applicable payment.

If the return is e-filed on or before the due date, the requested payment date cannot be later than the due date. If the return is transmitted after the due date, the requested payment date cannot be later than the current date.

Required Information

A **Withdrawal selection** (item # 1 in Figure 8) is required if the program is to direct tax authorities to withdraw funds from the taxpayer's account.

The screenshot shows the PMT screen with three red circles highlighting required fields:

- Circle 1:** Withdrawal selection: Federal selection..... [dropdown] State/city selection..... [dropdown]
- Circle 2:** Name of financial institution [text], RTN [text], Account number [text], Type of account [checkbox] Checking [checkbox] Savings [checkbox]. Below this is a section labeled "Repeat Account Information" with the same fields.
- Circle 3:** Federal: Federal payment amount..... = [text] Requested payment date..... = [text] Daytime phone number..... = [text]. Below this is a section labeled "Payment is for....." with checkboxes for 1120S, 7004, and Amended 1120S.

At the bottom, there is a section for "State:" with similar fields for payment amount, requested payment date, and daytime phone number.

Figure 8: Required fields on **PMT** screen: withdrawal selection (1); account information (2); specified return (3)

The name of the financial institution, routing number (RTN), account number, and account type are required. As with the **DD** screen, the **RTN**, **Account number**, and **Type of account** data must be entered twice (item # 2 in Figure 8).

Finally, the **PMT** screen must indicate the return to which the payment data applies (item # 3 in Figure 8 on page 16). Put a check mark in the box of the applicable return type.

Withdrawal from Multiple Accounts

Only one account can be designated for direct debit of funds for payment of federal or state taxes. To have state amounts withdrawn from an account other than the account indicated for federal payments, complete the fields in the **State Account** sections of the **PMT** screen.

NOTE Neither the federal nor the state balance due can be paid from more than one account.

Filing an Extension

Calendar year returns are due on March 16, 2015. By filing Form 7004, an S corporation can extend the deadline six months to September 15. Fiscal year returns are due on the 15th day of the third month after the end of their tax year. Form 7004 extends the deadline six months.

To file an 1120S extension, use either of the following options:

- Go to the **7004** screen in Drake and select **Generate an extension**. Complete any other applicable fields on the screen.
- Go to the **PRNT** screen and select **Prepare Form 7004 based on screen 1 data**.

Signing the Return

Electronic PIN signatures are required for e-filed returns. All fields on the **PIN** screen *must* be completed to e-file a return, including the title and signature (name) of the officer signing the return.

An 1120S return must be signed and dated by one of the following individuals:

- The corporation's president, vice president, treasurer, assistant treasurer, or chief accounting officer
- Any other corporate officer, such as a tax officer, who is authorized to sign

If the return is prepared by a paid preparer, the preparer must complete the required information on the **PIN** screen. If it is prepared by an employee or officer of the corporation, open screen **1** and select **NONE** in the **Firm #** and **Preparer #** fields.

To have the preparer's name and address information displayed on the printed return:

- If the return preparer and ERO (entered in **Setup > ERO**) are the same:
 - Go to **Setup > Preparer(s)** and ensure that the **Alternative Electronic Signature** box is marked for the preparer.
 - Complete the **PIN** screen for the return.

- If the return preparer and ERO are *not* the same:
 - Go to the **PRNT** screen for the return and complete the field labeled **PIN for preparer's alternative electronic signature**. The PIN entered should match the one entered for the preparer in **Setup > Preparer(s)**. (For more information, press F1 in this field.)

NOTE

Setup > ERO must still be completed for e-file. For information on how to complete this setup window, see *Drake Software User's Manual: Tax Year 2014*. See the IRS instructions for further details on signature requirements.

Amending a Return

Amended 1120S can be e-filed using Drake Software.

CAUTION

When you amend a return in Drake, the amended information replaces the original in the data file. Before amending a return, you should archive the original to avoid losing previously submitted data. For more information on archiving returns, see "Archive Manager" in Chapter 6, "Return Results," of the *Drake Software User's Manual: Tax Year 2014*.

To file an amended 1120S return:

1. Go to screen **1** and select **Amended return** in section **H**.
2. Make changes as applicable to forms and schedules.
3. Go to the **EF** screen and mark the **Amended 1120S** check box on the left side of the screen.
4. Go to screen **X (Amended Return Changes)** and list the changes that have been made, along with an explanation for each change. Use a different **X** screen for each line of the 1120S. Press **PAGE DOWN** to open a new **X** screen.

Type **AMD** or **X** into the selector field and press **ENTER**.

If amending just the K-1s, go to each applicable **K1** screen, select **Amended K1**, and make needed changes.

NOTE

When amending an 1120S return, all K-1s are amended and the "Amended K-1" box on the return marked by default. To override this default, go to the **PRNT** screen and mark **Do NOT check amended box on Sch. K-1**. (See Figure 10 on page 23.)

Additional Information

This section covers Schedule B (Other Information), state-specific information, and some program overrides.

Schedule B

Enter the accounting method, principal business activity, and product or service on screen **1**. This information flows to lines 1 and 2 of Schedule B.

Use screen **B** to answer questions 3 through 13b of Schedule B.

If the answer to question 3 is "Yes," complete screen **B1**. If the S corporation owned, directly, 20% or more, or owned directly or indirectly 50% or more of the total stock issued and outstanding of any foreign or domestic corporation, click the **B4A Screen** link on screen **B** to enter information about the domestic or foreign corporation owned. (You can enter information for up to 10 lines corporations per **B4A** screen; to add more, press CTRL+PAGE DOWN.)

If the S corporation owned, directly, 20% or more, or owned, directly or indirectly, 50% or more in the profit, loss, or capital in any foreign or domestic partnership (including an entity treated as a partnership), or in the beneficial interest in a trust, click the **B4B Screen** link on screen **B** to enter information about the domestic partnership owned. (You can enter information for up to 10 partnerships per **B4B** screen; to add more, press CTRL+PAGE DOWN.)

State-specific Information

Resident State The program automatically generates a return for the corporation's resident state. Use screen **2** to enter company information as it should appear on the state return.

NOTES

The company information fields on screen **2** apply for the resident state only.

Click the screen **2** link from the **States** tab or enter 2 in the selector field and press ENTER.

Company information includes the type of return that applies for state purposes (consolidated, composite, controlled group, multi-state) and state-specific dates and numbers for identification.

Other States Data for other states must be entered manually in state data entry. To access state data entry, select the **States** tab from the **Data Entry Menu** and choose a state, or enter the two-letter state code in the selector field and press ENTER.

Multi-State Apportionment Enter sales, payroll, and property factors on the **APPT Multi-State Apportionment** screen (Figure 9 on page 20). This screen provides one central location for entering all state apportionment information instead of having to open each needed state's screen.

In addition to making data input faster and easier, this feature provides two worksheets: a summary worksheet (SA-SUM~) that can be used for verifying input, and a reconciliation worksheet (SA-REC) that ties the total of the state amounts to the federal return figures. These worksheets are available in View mode.

The individual state apportionment screens will continue to be available in Drake14 but will be used to override data entered on the **APPT** screen. No state apportionment-related screens will be updated from Drake12 to Drake14.

Figure 9: APPT Multi-State Apportionment screens

NOTE

Mark the **Zero Apportionment** check box (Figure 9) to add a state but not include any apportionment data. This will include the state on the apportionment summary worksheet (SA-SUM~), available through View mode.

APPT Screens

The **APPT** screen is opened to the **Sales** tab. Links at the top of this screen take you to the **Payroll**, **Property**, and **Additional Property** tabs for each state selected (Figure 9). These screens and their uses are listed in Table 1:

Table 1: APPT Screens

Screen	Information
Sales	Select state; enter sales, returns and allowance, and other income-related information for each selected state
Payroll	Enter salary, wage, commission, and labor amounts for each selected state
Property	Enter beginning and ending amounts of common apportionment factors, plus select additional apportionment factors from drop lists
Additional Property	Select additional apportionment factors from drop lists

NOTE

The **Ending** amount entered on the **Property** and **Addition Property** screens in Drake14 will become the **Beginning** amount for property on the **APPT** screen when the client's return is updated next year in Drake14.

You may enter up to four states on one **APPT** screen. If you need more than four states, press PAGE DOWN for a new **APPT** screen. The same state can be entered more than once when additional fields are needed.

Select **OT Other Reconciliation** from the **State Selection** drop list when using the reconciliation worksheet. Not every item appearing on the federal return may be subject to multi-state apportionment. When you select **OT**, the data entered becomes a reconciling adjustment amount to aid in tying to the federal return.

Enter as much or as little detail as the states require. If a state does not require any information to be entered, no information will flow to that state's return.

Contact Information

If certain contact information required for state purposes is different from that entered on screen **1**, use screen **2** for the alternative data for any of the following entities:

- Registered office
- Principal place of business
- "Books in care of" information

Screen **2** also has fields for the name, title, mailing address, e-mail address, ID number, and telephone number of the S corporation's contact person.

Access screen **2** from the **States** tab or by entering 2 in the selector field and pressing ENTER.

Schedule K: Shareholders' Pro Rata Share Items

Screen **K**, which consists of two screens, can be used to enter data for Schedule K, Shareholders' Pro Rata Share Items. Note that the **K** fields are primarily adjustment fields. Press F1 inside a field to see what amounts are adjusted from elsewhere in the program.

Navigation

Press PAGE UP and PAGE DOWN to navigate back and forth between the two **K** screens:

- Shareholders' Pro Rata Share Items (Income and Deductions)
- Credits & Credit Recapture & Foreign Transactions

TIP

The most commonly used Schedule K items can be answered on the **INC** screen. If these amounts are entered on the **INC** screen, they do not need to be entered on the **K** screens.

NOTE

Because charitable contributions are separately stated to the shareholders, there is no "Charitable Contributions" line on the 1120S return. Charitable contribution information belongs instead on the Schedule K. Enter charitable contributions in the bottom section of the **INC** screen or in the line **12a - Contributions** fields of the **K** screens. Any contribution limitation is made at the shareholder level.

Schedule K-1 for 1120S (Shareholder Information)

Use the **K1** screen to enter data for Schedule K-1, Shareholder's Share of Income, Deductions, Credits, etc.

NOTE

The program calculates percentage ownership based on the number of shares owned. (This amount can be overridden on line **F** of the **K1** screen, using the **Shareholder's % of stock ownership** field; however, this not recommended.)

Ownership Changes

Ownership changes are entered on the **OWN** screen, which is accessible through the **OWN Screen** link on line **F** of the **K1** screen or from the **General** tab of the **Data Entry Menu**. To use the **OWN** screen:

- Enter the date of ownership change at the top of the screen.
- Select the applicable shareholder from the **Shareholder's ID Number and Name** drop list in the **Change in Shares** section. (The drop list consists of the names and ID numbers entered on the **K1** screens and is updated automatically).
- Enter the change in ownership as a positive amount for an increase and a negative amount for a decrease. (See field-level help for more information.)
- To enter additional ownership changes, press **PAGE DOWN**.

NOTE

See **FAQ** item "P" in the program for more information on entering ownership-change information.

Printed Data

A Summary of Stock Ownership worksheet (WK_SOWN) is generated, listing all shareholders and the numbers of stocks owned along with the changes in ownership. Because a shareholder's percentage of ownership may change even if the shareholder's number of stocks owned does not, all shareholders are listed on the worksheet.

IRS K-1 Codes

A code sheet can follow the printing of each Form 1120S K-1 to help interpret the various codes used on Schedule K-1. In Drake, this is the 1120SK_1.PG3 sheet. To have this sheet printed with all K-1 schedules, from the **Home** window of Drake, go to **Setup > Options > Form & Schedule Options** tab and mark the **Print Page 2 of Schedule K-1** check box. The codes can also be printed for a specific return by marking the applicable box on the **PRNT** screen, and are available from **Tools > Blank Forms**.

NOTE

Codes sheets are not displayed in View mode. If the 1120S K-1 is selected for printing, it is printed first, followed by the statements pertaining to that 1120S K-1. These are followed by the code sheets.

The generated Schedule K-1 may include asterisks with letter codes:

- An asterisk with a letter code indicates that multiple items have that code.
- An asterisk at the bottom of a group indicates that there are more items than can fit in the space provided for that group and that a statement is attached, or that the statement is required (as in the case of “other” amounts).

Multiple Shareholders

For returns with a large number of shareholders, you have the option to deactivate calculation and printing of the K-1s while working on the Form 1120S. This option, which eases the process of reconciling the 1120S, is available by going to the **PRNT** screen and marking the box under **K-1 Items to Suppress** (Figure 10).

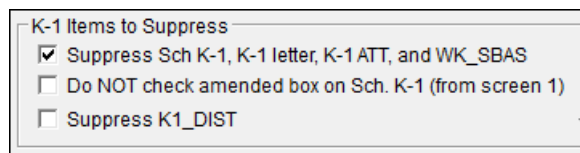


Figure 10: Check box for suppressing K-1 items (located on **PRNT** screen)

When the return is ready to be filed, return to the **PRNT** screen and remove this check mark before calculating the return.

Override Fields

It is not possible to override the calculations for a single shareholder. To override calculated data, it is necessary to override the calculated amount on all K-1 schedules.

IMPORTANT

Shareholder overrides should not be done for an S corporation except in certain circumstances, such as ownership changes.

Foreign Addresses

If the shareholder has a foreign address, enter **Province/state**, **country**, **postal code** information on the **Foreign** address line of the **Shareholder Name and Address Information** section (along with the street address and city in the **Address** and **City** fields). Do not enter anything in the **U.S. State** or **ZIP** fields. Conversely, for a U.S. address, do not enter anything into the foreign address fields.

NOTE

The **Foreign** fields are locked when a return is opened. Click in one of the fields to unlock them throughout the return. To relock the unused **Foreign** fields, close and then reopen the return.

K-1 Export

Take the following steps to export a K-1 from an 1120S return into a 1040 return:

1. Ensure that K-1 data is entered in the 1120S and that the 1040 return has been created. (The **K1S** screen in the 1040 does not have to be created beforehand.)
2. In the 1120S return, go to View mode.

3. Click **K1 Export** in the View toolbar. If any K-1s are not eligible to be exported, that list appears. Click **Next** to continue; otherwise, the **Export K1s** window is opened, containing a list of K-1s eligible for export.
4. All SSNs in the list are eligible for export. Remove the check mark from the box to the left of any SSNs you do not wish to export.
5. Click **Export**. The K-1 data will be displayed in the 1040 return in the program.

NOTE

Basis information for individual shareholders should be entered in the 1040 package in Drake; this information cannot be exported from the 1120S package to a 1040 return. Such an import would override limitations and carryovers calculated in the 1040 program.

Supplemental Info

Two types of supplemental information can be added to Schedules K-1:

- Supplemental data for all K-1s in a return
- Supplemental data for a single K-1 in a return

To add supplemental information “globally” (to all K-1s), from the **Data Entry Menu**, open screen **K1G (Global Supplemental Information)** and enter the information in the **Supplemental Information** text box. This information will appear on all printed shareholder K-1s.

To add supplemental information to an individual K-1, open a shareholder's **K1** screen and click the blue **Supplemental Info** link at the top of the window. In the **Supplemental Information** text box (Figure 11), enter information pertinent to this shareholder. When the return is printed, this information will appear on only this shareholder's K-1.

The screenshot shows a software window titled "K1S - K-1 Supplemental Information Statement". At the top are three tabs: "K1", "Basis Wks", and "Supplemental Info", with the last one being selected. Below the tabs, there are two paragraphs of instructions: "Enter global supplemental information for all K-1s on the K1G screen." and "Enter specific information for a single K-1 here. This information is added to the global supplemental information entered on the K1G screen." To the right of the second paragraph is a text input field containing "010101010", which is circled in red. At the bottom of the window is a yellow highlighted box containing the text "Note the Following information for Amelia Carter:", where the name "Amelia Carter" is also circled in red.

Figure 11: In this example, the information entered on the **K1S** screen will appear on only the K-1 of the shareholder with SSN or EIN of **010101010**.

Domestic Production Activities

An S corporation does not take the deduction for Form 8903, Domestic Production Activities Deduction. Because the deduction is subject to income limitations, this information must be reported on shareholders' individual returns. Shareholders use the pass-through amounts to calculate their eligibility for the deduction.

On the **8903** screen, if the **Print K1-8903 for each shareholder** box is not selected, the amounts flow to the **K-1**, box 12, with codes **Q** and **R**. When this box is selected, the information flows to attachment K-1_8903 (Figure 12) instead of box 12 on the K-1. Attachment K1_8903 is referenced on a statement. Code **P** is printed on box 12 of Form K-1, which refers to domestic production activities information.

	(a) Oil-related production activities	(b) All activities
1 Domestic production gross receipts (DPGR)	6,172	16,666
2 Allocable cost of goods sold. If you are using the small business simplified overall method, skip lines 2 and 3		22,222
3 Enter deductions and losses allocable to DPGR (see instructions)		27,777
4 If you are using the small business simplified overall method, enter the amount of cost of goods sold and other deductions or losses you are allocating to DPGR. All others, skip line 4		33,333

Figure 12: K1_8903 attachment

Review the screen-level help on screen **8903** and the 8903 instructions (accessible through the **Screen Help** button on the **8903** screen) to determine when the K1_8903 is needed.

NOTES

Line 11, "Income limitation," of Form 8903 is not applicable for the S corporation because the income limitation is calculated at the shareholder level.

"Form W-2 wages" (on the **8903** screen) refers to the corporation's W-2 wages paid that are applicable to the Domestic Production Activities Deduction.

K-1 Cover Letters

K-1 cover letters can be produced to accompany each Schedule K-1 in a return. You can set up the global option to produce K-1 cover letters for all returns containing K-1 schedules, or you can choose the option on a per-return basis.

Producing Letters for All Returns

To have the K-1 cover letters produced automatically with *all* applicable returns, from the **Home** window of Drake, go to **Setup > Options**. Under the **Optional Documents** tab, mark the box labeled **Include K-1 letter with returns**.

The signature on the return can be indicated in one of two ways:

- By completing the **Signature** and **Title** fields on the **PIN** screen
- By completing the **Name** and **Title** fields in the **K1L** screen (available on the **Miscellaneous** tab). Entries here override entries on the **PIN** screen.

Producing Letters for Single Return

If no default has been set to produce K-1 cover letters with all returns, you can take the following steps to generate letters for a single return:

1. Open the return and go to screen **K1L**.

2. At the bottom of the screen, enter the name and title of the person who will be signing the K-1 cover letter.
3. (optional) Mark **Do not print entity information ...** at the bottom of the screen in order to prevent the corporation's name and address from being generated in the header of the K-1 letter.

NOTE

To have the corporation's name and address generated for K-1 letters, go to **Setup > Communications Editor > Setup > Letterhead, Margins and Borders** and select **Use letterhead on letters**. The letterhead is derived from information entered on screen 1.

Once the required signing information has been entered, a K-1 cover letter will be generated for each shareholder receiving a K-1.

Editing the K-1 Letter

As with other letters provided by the program, you can edit the text to suit your office needs and style.

TIP

Review the following sections of the *Drake Software User's Manual: Tax Year 2014* before making changes to letter templates:

- "Introduction to Letters in Drake" in Chapter 2, Installation & Setup
- The "Letter Keywords" section of Appendix B, Keywords

To edit the text of the K-1 letter:

1. From the **Home** window, select **Setup > Communications Editor**. The **Client Communications Editor** is displayed.
2. From the icons on the toolbar, select **Open > S Corporation > Sub S K-1 Cover** to view the template of the S corporation K-1 letter.
3. Make any desired changes to the template.
4. Click **Save**.

NOTE

For an amended return, the K-1 letter automatically refers to the amended K-1. To edit the letter for an amended K-1, from the toolbar select **Open > S Corporation > Sub S K1 Amended** and follow steps 3 and 4 of the previous procedure.

Shareholder's Adjusted Basis Worksheet

NOTE

Basis information for individual shareholders should be entered in the 1040 package in Drake; this information cannot be exported from the 1120S package to a 1040 return. Such an import would override limitations and carryovers calculated in the 1040 program.

Use the Shareholder's Adjusted Basis Worksheet (**Basis Wks** screen) to calculate a shareholder's new basis after increases and decreases are made during the current year. The basis of S corporation stock is adjusted on an ongoing basis (unlike for a "C" corporation, where stock basis remains constant unless additional stock purchases are made or stock is sold). A shareholder's beginning basis in S corporation stock is the original capital contribution.

The **Basis Wks** screen is accessible by clicking the **Basis Wks** tab at the top of the **K1** screen for a shareholder (Figure 13). (Access the **K1** screen from the **Data Entry Menu**.)

The screenshot shows the 'K1' screen with three tabs: 'K1', 'Basis Wks' (highlighted with a red circle), and 'Supplemental Info'. Below the tabs is the title 'Schedule K-1 - Shareholder's Share of Income, Credits, Deductions, etc.'. Under this title is a section titled 'Shareholder Name and Address Information'. This section contains several fields: 'D ID number' (123123123), 'E Name' (Dante Alighieri), 'Care of/FBO/DBA' (empty), 'Address' (1234 La Principale Via), 'City' (Florence), 'U.S.: State, ZIP' (dropdown menu), 'Foreign: Province/state, country, postal code...' (Tuscany), and 'Phone number' (123-456-7890). There are also dropdown menus for 'Type', 'Resident state' (IT), and a 'Resident state' label.

Figure 13: K1 screen tab for accessing the Adjusted Basis Worksheet

Increases and Decreases

Increases to basis can include additional stock purchases and capital contributions, separately stated income (including tax-exempt income), and depletion in excess of basis of property.

Decreases to basis can include distributions of cash or property to shareholders, separately stated losses and deductions, nondeductible corporation expenses, and credit adjustments.

Annual Update of Shareholder Information

When the program is updated to the next tax year, the end-of-year basis and shareholder loan amounts are automatically updated to the beginning of the new year. Any loss/deduction carryover is updated to the beginning of the year and its character (ordinary loss, section 179 expense, charitable contributions, etc.) maintained. The program also tracks the amount of debt applied to losses and the total amount of loss carryforwards.

NOTE

If a **K1** screen is marked as final, none of the related screens for that shareholder are updated for the next year.

Schedule L: Balance Sheet Per Books

Schedule L is required if the corporation's total receipts for the tax year or its total assets at the end of the year are greater than \$250,000.

NOTES

To force the program to print Schedule L even if not required, mark the **Force-print Schedules L and M-1** box on screen **L** or on the **PRNT** screen.

With the Trial Balance Import feature, you might not need to use screen **L** at all. See "Importing Trial Balance Information" on page 47.

Flow of Information

Many of the entries made elsewhere on the return flow automatically to the generated Schedule L (for example, inventory information from Form 1125-A). Depreciable asset information from the **4562** screen and intangible assets and amortization also flow to Schedule L.

The SCH2 Screen

The **SCH2** screen is used to provide detailed information required by the IRS for certain lines on Schedule L. This screen can be used in place of the actual **L** screen in Drake. In other words, if you use this screen for all applicable lines on Schedule L, you *do not* need to make any entries on the **L** screen.

NOTES

All line selections are carried to the **SCH2** screen in next year's program when the returns are updated. Line descriptions are updated, with the year-end amounts carried to the beginning-of-year column.

To access the **SCH2** screen from the **L** screen, click one of the **SCH2 Screen** links.

To create a statement for a line, select a line from the **Line Number** drop list and enter descriptions and their corresponding amounts. Once the information is entered, press PAGE DOWN to access a new screen. If more detail is required than can fit into a **Description** field, press PAGE DOWN, and on the new **SCH2** screen, select the same line number and then add to the description.

Statements

The total amounts entered on the **SCH2** screen appear on the **L** screen in the **BOY Totals** and **EOY Totals** columns. They are also printed on the return as applicable, with references to the corresponding statements.

If a line is required, a statement (labeled "STATEMENT" or "STM" in View mode, depending on your Setup Options) is produced and is e-filed with the return.

Note that an e-fileable "STATEMENT" is referenced in the return, as shown in the example of Figure 14 on page 29.

Line Number	Description	Amount
1	Cash	
2a	Trade Notes and Accounts Receivable	
2b	Allowance for Bad Debts	
3	Inventories	10,20
4	U.S. Government Obligations	
5	Tax-exempt Securities	1,02
6	Other Current Assets (STATEMENT)	1,23
7	Loans to Shareholders	
8	Mortgage and Real Estate Loans	
9	Other Investments (STATEMENT)	
10a	Buildings and Other Depreciable Assets	
10b	Accumulated Depreciation	

Figure 14: Data entered on the “Other current assets” line will be attached as an e-fileable statement and referenced on the applicable line of the return.

SCH2 and Trial Balance

Typically, one or more **SCH2** detail screens are needed for Schedule L items. If you are using Drake’s trial balance worksheet feature, be aware that data for the **SCH2** screens cannot be entered directly into the trial balance worksheet, and it cannot be imported into the data entry. The **SCH2** detail screens must be created apart from the trial balance worksheet.

When the return is produced, Schedule L reflects both the amounts imported from the trial balance worksheets (where direct entry was allowed) and the totals of the **SCH2** screen amounts.

For more information, see “SCH2 Detail” on page 54.

Autobalance

Autobalance forces Schedule L to balance for both the beginning- and end-of-year amounts. The program adjusts the unappropriated retained earnings amount on Schedule L by the difference between the total assets and the total liabilities and capital *before* the adjustment.

(Example: If Assets = \$1,000, and Liabilities and Capital = \$900, the program increases the unappropriated retained earnings by \$100.)

The program makes the adjustment due to differences in the balance sheet. These differences can come from amounts entered incorrectly but are usually the result of one of the following causes:

- An asset was deleted from the **4562** screen (**Depreciation Detail**) instead of being indicated as sold.
- Beginning inventory amounts were adjusted on screen **A**, or ending inventory amounts were entered incorrectly.
- Amounts were erroneously deleted from or changed on screen **L**.

To reconcile the differences, it is best to compare the corporation's beginning and ending balance sheet amounts for the tax year.

To deactivate the autobalance feature for a specific return, go to the **PRNT** screen and select **Turn off autobalance**.

Schedules M-1, M-3 (Reconciliation of Books/Return)

Schedule M-1 is required if the balance sheet's total assets at the end of the year are greater than \$250,000. Page 1 of Schedule M-3 is required if the balance sheet's total assets at the end of the year equal or exceed \$10 million, and Schedule M-1 and pages 1-3 of Schedule M-3 are required if the total assets equal or exceed \$50 million.

Schedule M-1

Schedule M-1 shows all items of income and expense that are not subject to tax, plus those accounting items that are not income tax items. When required, taxpayers must reconcile book income with taxable income.

Use the **M1** screen to enter book-to-tax difference for Schedule M-1. Book-to-tax differences are classified as permanent or temporary, and as favorable or unfavorable. Examples of both kinds of differences are shown in Table 2.

Table 2: Examples Book-to-Tax Differences for Schedule M-1

Difference	Description	Examples
Permanent	Book or tax items that will never be reported for book or tax purposes	- Meals & entertainment limitations - Penalties - Tax-exempt interest
Temporary	Items that will be reported for both tax and book purposes, but not during the same tax year	- Depreciation - Gains or losses on the sale of depreciated assets
Favorable	Items that reduce taxable income	- Instances in which tax depreciation amount is greater than book depreciation amount
Unfavorable	Items that increase taxable income	- Disallowed meals & entertainment

Depreciation and Amortization Adjustments

The program may make an adjustment for book-to-tax depreciation (or amortization) differences. The calculation is done as described in the following steps. (This procedure refers to "depreciation" throughout, but it applies for either depreciation or amortization.)

1. The amount reported on Schedule L "Beginning of Year" accumulated depreciation (line 10b, column a) is subtracted from the "End of Year" accumulated depreciation (line 10b, column c). This is the "book" depreciation amount.
2. This "book" depreciation amount is compared to the "tax" depreciation amount. (The "tax" depreciation amount is calculated from the Forms 4562, including any section 179 amounts.)

3. The difference between the “book” and “tax” depreciation amounts is carried to the appropriate form and line.
 - If the “book” depreciation amount is greater than the “tax” depreciation amount, the difference is carried to one of the following locations:
 - Schedule M-1, line 3a
 - Schedule M-3, Part III, line 24 (as a negative amount)
 - Form 9916-A, line 21 (as a negative amount for assets selected on the **4562** detail screen for COGS)
 - If the “tax” depreciation amount is greater than the “book” depreciation amount, the difference is carried to one of the following locations:
 - Schedule M-1, line 6a
 - Schedule M-3, Part III, line 24 (as a positive amount)
 - Form 9916-A, line 21 (as a positive amount for assets selected on the **4562** detail screen for COGS)

Schedule M-3

Any domestic corporation or group of corporations that reports on Schedule L of Form 1120S total assets at the end of the S corporation's tax year that equal or exceed \$50 million must complete and file Schedule M-3 instead of Schedule M-1. If the S corporation is required to file (or voluntarily files) Schedule M-3, it *must* file Form 1120S and all attachments and schedules, including Schedule M-3.

Accessing the M3 Screens

The **Schedule M-3** section of the **Data Entry Menu** provides direct access to the following screens:

- **M3**, **M32**, and **M33** — for **Parts I, II, and III** of the Schedule M-3
- **M3S** — for supplemental statements
- **SCH3** — for subsidiary schedules for Schedule M-3 and Form 9916-A
- **8916** — for Form 9916-A, Supplemental Attachment to Schedule M-3

Certain income, deductions, gains, and losses flow from the 1120S to the M-3 in the program, but all other M-3 data must be entered manually on the **M3** screens.

NOTE

Parts II and III of Schedule M-3 reconcile financial statement net income (loss) for the U.S. tax return (per Schedule M-3, Part I, line 11) to total income (loss) on Form 1120S, page 3, Schedule K, line 18.

The SCH3 Screen

The **SCH3** screen is similar to the **SCH2** screen and is used to provide detailed information for Schedule M-3 and Form 9916-A. It can be used in place of the actual **M3** and **8916** screens.

For more information on using this type of screen, see “The SCH2 Screen” on page 28.

Schedule M-2 (Analysis of Accounts)

NOTE On an 1120S return (unlike an 1120 return), Schedule M-2 is *not* a reconciliation of retained earnings.

For an S corporation return, Schedule M-2 is the analysis of the Accumulated Adjustment Account. Schedule M-2 information can be entered on the **M2** screen and elsewhere in the program, but most information is carried to the M-2 automatically. See “Entering Distributions,” following.

Schedule M-2 represents a corporate picture of the income, losses, and distributions to shareholders and tracks tax-free distributions and helps determine if excess distributions might be taxable to shareholders. If a shareholder receives more in distributions than he or she has in basis, the result might be taxable.

Entering Distributions

Code Section 6037 states that an S corporation return must report the amount and date of distributions made to each shareholder. The **DIST** screen is used for entering date and distribution amounts for Schedule K, line 16d, Distributions. In addition to line 16d, the total from the **DIST** screen may flow to Schedule M-2, line 7 (subject to limitations) and to the Schedules K-1 based on the shareholder's ownership percentage. Schedule K-1 distribution information is displayed on the K1_DIST worksheet produced with the return.

NOTE The **DIST** screen is available from the **General** tab of the **Data Entry Menu**, or enter **DIST** in the selector field and press **ENTER**.

Column A, Accumulated Adjustments Account

The “Accumulated adjustments account” column of Schedule M-2 generally reflects the S corporation's accumulated undistributed net income after 1982. Non-dividend distributions flow to Schedule M-2 from Schedule K, line 16d. An entry in the **Non-dividend distributions** field (line 7) of the **M2** screen adjusts the amount from the **K** screen (subject to limitations; see balance-sheet examples on the following page). See the field help for line 7 for more details.

Distributions reported on line 7 flow differently from the amount entered on the **DIST** screen. (See the previous section, “Entering Distributions.”) The distributions are limited following the ordering rules under Reg §1.1368.2.

TIP See Form 1120S instructions for more details and examples.

These rules are for Schedule M-2, column a:

- **Line 1 balance** — The balance at the beginning of tax year, line 1 is either zero or the balance carried forward from line 8 of the previous year. Due to prior-year net losses and reductions, the amount on line 1 can be negative.
- **Changes to AAA** — The Accumulated Adjustments Account (AAA) is increased for ordinary income from page 1, line 21 (line 2) and other additions listed on line 3. The AAA is then decreased for any loss from page 1, line 21 (line 4) and other reductions listed on line 5.
- **Reduction of AAA** — Once these adjustments are made, the AAA is reduced by ordinary distributions on line 7, but not less than zero. Thus, if the distributions are \$20,000, but the net amount on line 6 is \$10,000, line 7 is limited to \$10,000. If line 6 is a negative number, then line 7 will be zero (in this example). To allow an amount on this line would take the AAA to a larger negative number. (That is, even more below zero than it really is).

Schedule M-2	Item	Amount
Line 1	Balance at beginning of tax year	(\$11,786)
Lines 2 & 3	Ordinary income and other additions	\$58,440
Lines 4 & 5	Loss and other reductions	<u>(\$489)</u>
Line 6	Combine lines 1-5	\$46,165
Line 7	Distributions (total \$60,000)	<u>(\$46,165)</u>
Line 8	Balance at the end of tax year	<u><u>\$0</u></u>

The rules from the preceding chart apply when the net adjustment for lines 2 through 5 is positive. When the net adjustment for lines 2 through 5 is *negative*, the ordering rules are switched and AAA is decreased by ordinary distributions (but not below zero) before the net negative adjustment for lines 2 through 5.

Sch. M-2	Item	Amount
Line 1	Balance at beginning of tax year	\$11,786
Line 6	Net negative adjustment (lines 2-5)	(\$57,951)
Line 7	Distributions (total \$60,000)	<u>(\$11,786)</u>
Line 8	Balance at end of tax year	<u><u>(\$57,951)</u></u>

Important Note about the AAA

A corporation can make distributions greater than the amount on line 6 of the M-2, but those distributions could be taxable to the shareholders. Enter distributions on the **DIST** screen; this way, the amounts flow automatically to Schedules M-2 and K-1 but are limited based on the rules described previously. (For more information on the **DIST** screen, see "Entering Distributions" on page 32.)

Line 7 is limited to the lesser of the amount for line 7 or the positive amount from line 6. If line 6 is negative, line 7 is then limited to the positive amount on line 1. If line 1 and line 6 are both negative, line 7 is completely disallowed on the Schedule M-2. Distributions are entered on the **DIST** screen to be reported to the shareholders,

regardless of the Schedule M-2 limitation. The AAA cannot be negative as a result of distributions, but it can be negative if it arises from losses.

Column B, Other Adjustments Account

Use column b, **Other Adjustments Account**, of screen **M2** to enter any amounts you want printed in the corresponding column of the printed return. Officer life insurance and applicable tax-exempt income flows to Schedule M-2, column b ("Other adjustments account"), line 5. All other amounts (such as expenses) must be entered manually on the **M2** screen.

Column C, Undistributed Taxable Income Previously Taxed

The total of column c cannot be negative. This column is active in an 1120S only if the entity was ever a "C" corporation (thus having earnings and profit (E&P)) or if it was a pre-1983 S corporation. By design, Drake does not allow negative numbers in column c.

If a corporation becomes an S corporation and has net operating losses (NOLs), the NOL is not generated for the return because it cannot be carried to an 1120S (the IRS does not want the NOL to be used by the shareholders to offset income); it either runs out within the years allowable for the NOL by statute or is used if the S corporation terminates its "S" status within those years.

Rental Activities

Income and expenses for rental real estate properties appear on Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation. To make entries in Drake, use the **8825** screen.

If there are multiple 8825 properties, press PAGE DOWN for a new **8825** screen. Use one screen per rental property. If a return has more than one **8825** screen, the program reports each property's information on a separate column of the "Properties" section of Form 8825 (up to eight properties can be included on a form). Data from all **8825** screens are transmitted to the IRS when the return is e-filed.

NOTE Special steps are required if using the trial balance worksheet for multiple rentals. See "Rental Expenses" on page 55.

Line 14, Depreciation

If the program is calculating depreciation (entered on the **4562** screen) for the property listed on Form 8825, do not enter the depreciation on the **8825** screen. Depreciation should be entered only if it is figured outside of the Drake program, and then the net

results should be entered on screen **8825**. The amount entered on line **14** is added to the depreciation calculated from the **4562** screens.

NOTE Form 4562 is required for assets placed in service during the year.

Carrying Information to Form 8825

To indicate that the information should be carried to Form 8825, select **8825** from the **For** drop list on screen **4562** (Figure 15). If there are multiple **8825** screens, use the **Multi-form code** box. For information on using the **Multi-form code** box, see the *Drake Software User's Manual: Tax Year 2014*.

The screenshot shows the 'Form 4562' window. At the top, there's a 'For:' dropdown menu with '8825' selected, and a 'Multi-form code' input box with '2' entered. To the right of these is the text '1120S, COGS, 8825, RENT, F (1-999; 1 is assumed if left blank)'. Below this, there's a table with three columns: 'Description', 'Date Acquired', and 'Cost / Basis'. The first row of the table has 'rental units' in the description column, '01-01-2010' in the date column, and '554433' in the cost/basis column.

Figure 15: In this example, the program will carry the 4562 information to the second **8825** screen created.

Any depreciation information entered on the **4562** screen is carried to the correct Form 8825, based on the form and multi-form code selections at the top of the **4562** detail screens.

When selecting a multi-form code, note that the code should refer to an **8825 screen**—not the 8825 *form*. For example, data from the second **8825** screen will be generated on the first Form 8825. To associate an asset with that information, you would enter a 2 for the screen (not a 1 for the form) in the **Multi-form code** box. For more information on Form 8825, see “Viewing Rental Activity Information,” following.

IMPORTANT

Line 15, Other Expenses (list)

Enter meals and entertainment (subject to 50% limit) in the appropriate field on line 15 of the **8825** screen. To enter additional other expenses, begin typing into the **Additional other expenses** field to open a Detail (CTRL+W) Worksheet. Enter descriptions and amounts on this worksheet.

A statement from each 8825 property is printed with the return and is submitted to the IRS when the return is transmitted.

13	Wages and salaries	13		
14	Depreciation (see instructions)	14		20,159
15	Other (list) Meals / Entertainment			1,111
	SEE STM 8825 02	15		3,333
16	Total expenses for each property. Add lines 3 through 15	16		24,603
17	Income or (Loss) from each property. Subtract line 16 from line 2	17	12,345	(2,381)
18	Total gross rents. Add gross rents from line 2, column 3 through 11			

Figure 16: Other expenses are listed on accompanying statement; in this instance, "STM_8825_02"

Use the **K1P** screen to enter rental income the S corporation receives on a K-1. This amount is carried to Form 8825, lines 20a and 20b. No entry is required on the **8825** screen.

Viewing Rental Activity Information

Rental activity data is viewed on the 8825 forms and accompanying statements.

- **8825 Forms** — The two-page Form 8825 can contain information for up to eight rental activities. Each Form 8825 in View mode contains up to eight rental activities. If more are entered, a second Form 8825 is created.

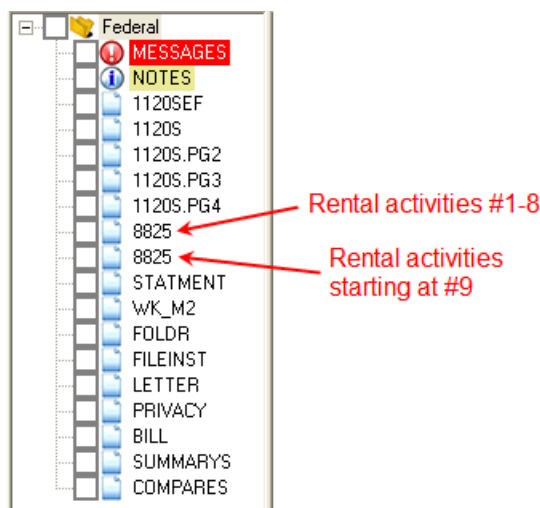


Figure 17: Multiple 8825 pages are created if more than eight rental activities.

The Form 8825 in View mode consists of one or more pages (depending on the number of rental activities) listing up to four rental activities per page. If more than four rental activities are entered, scroll down to the second page of the Form 8825 when viewing.

- **8825 Statements** — Statements are titled **STM_8825_XX**, where XX equals the instance of the **8825** screen. (For example, the statements for the first and second **8825** screens would be labeled **STM_8825_01** and **STM_8825_02**, respectively.) There are also 8825 attachments (**8825_ATT**) for other reporting information.

Credits and Adjustments

Certain credits require an adjustment to either income or expenses. The program carries the required adjustments to the appropriate line of the return and to either Schedule M-1 or Schedule M-3.

Manually reducing the expenses or deductions or increasing the income for these credits causes the return to be out of balance.

Adjustments are made to other income for the credit amounts for the following credits:

- Form 6478, Biofuel Producer Credit
- Form 8864, Biodiesel Fuels Credit
- Form 8912, Credit to Holders of Tax Credit Bonds (interest income)

Adjustments are made to the appropriate deduction or expense for the credit amounts for the following credits:

- Form 5884, Work Opportunity Credit
- Form 6765, Credit for Increasing Research Activities
- Form 8820, Orphan Drug Credit
- Form 8845, Indian Employment Credit
- Form 8846, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips
- Form 8881, Credit for Small Employer Pension Plan Startup Costs
- Form 8844, Empowerment Zone Employment Credit
- Form 8912, Credit to Holders of Tax Credit Bonds
- Form 8932, Credit for Employer Differential Wage Payments
- Form 8941, Credit for Small Employer Health Insurance Premiums

Elections

Access the ELEC screen from the Miscellaneous tab of the Data Entry Menu.

The ability to make certain tax elections is included in the business packages. Elections are selected from the **Return Elections** section of the **ELEC** screen (Figure 18 on page 38).

Figure 18: Return Elections portion of ELEC screen

Safe Harbor Elections

New for 2014: A check box was added to screen **4562** to apply a small taxpayer Safe Harbor election to a building listed in the **Description** field. An election statement will be produced and the building description as entered in the **Description** field will be included in the election statement.

NOTE This Safe Harbor election covers buildings only.

See IRS Reg. section 1.263(a)-3(h), IRB 2013-43, Rev. Proc. 2014-16, and Rev. Proc. 2015-14 for guidance.

Making an Election in Drake

To indicate that the S corporation is making an election:

1. Open the **ELEC** screen (accessible from the **Miscellaneous** tab of the **Data Entry Menu**).
2. Make a selection from the **Election** drop list. (See Figure 19.)

Figure 19: Election drop list

3. Complete all other fields as applicable. Press F1 in any field to learn if a field is required for your selection and the type of information that may be needed. For example, the help text for the **Other date or year-ending** field shows that the field is required only for election options 15, 27, 28, 29, and 31, and it explains what, specifically, should be entered for each of these elections. (See Figure 20.)

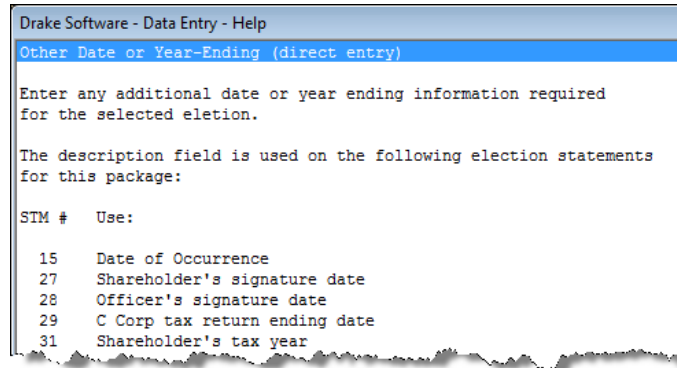


Figure 20: Help text for **Other date or year-ending** field on **ELEC** screen

NOTE

If the election option you selected is not listed in the help text for a field, then that field should be left blank. For example, if you chose election **01 (General Election Statement)**, you would not need to enter anything into the **Date or year-ending** field (help text in Figure 20).

To open a new **ELEC** screen for an additional election, press PAGE DOWN.

Election Statements

Once an election is made and the return is calculated, the election information is produced on a statement referenced "STM ELXX," where "XX" is the number of the election. For example, election 01 (General Election Statement) is generated as "Statement EL01."

The election statement includes the election title, election wording, and any additional information required for the election, such a date or amount.

Entries for certain fields are sometimes included in the actual election statement; other times, they are included as separate lines. Signature lines are printed as needed on some statements.

Safe Harbor Elections

New for 2014: A check box was added to screen **4562** to apply a small taxpayer Safe Harbor election to a building listed in the **Description** field. An election statement will be produced and the building description as entered in the **Description** field will be included in the election statement.

NOTE

This Safe Harbor election covers buildings only.

See IRS Reg. section 1.263(a)-3(h), IRB 2013-43, Rev. Proc. 2014-16, and Rev. Proc. 2015-14 for guidance.

New Options on ELEC Screen

Two other elections are now available from the **Elections** drop list on the **ELEC** screen:

- Sec. 1.263(a) - 1(f) de minimis safe harbor election
- Sec. 1.263(a) - 3(n) Election

Election statements are generated with the return (Figure 21).

Elections		2014 PG01
Name(s) as shown on return	Your Social Security Number	
William & Amelia Carter	400-00-6665	
I have filed Form 4361 and received approval from the IRS to be excluded from SE tax. Title: Section 1.263(a)-1(f) de minimis safe harbor election Name: William Carter Address: 1234 Main Street, Franklin, NC 28734 TIN: 400-00-6665 Statement: Taxpayer is making the de minimis safe harbor election under Section 1.263(a)-1(f).		

Figure 21: Election statement generated with **ELEC** screen selection

The Sec. 1.263(a) - 3(h) election can be made from either the **ELEC** screen or the **4562** screen.

Making Changes on the Fly

Use the **PRNT** screen to override program defaults.

Suppressing/Forcing Items

To suppress the printing or production, or force the printing or production of certain documents, go to the **PRNT** screen and select the desired options. Many “on-the-fly” changes override the options established in **Setup**.

1120S Items These items can be “forced” (forcing the program to generate the item) on a return:

- 1125E Officer Information
- Schedules L and M-1
- Form 4562 (Depreciation and Amortization)
- Next-year depreciation listing
- “Inactive return” printed on first page of the 1120S
- Preparer and officer signature on printed copy of return

The following 1120S items can be “suppressed” (kept from being generated) on a return:

- Schedule M-2
- WK_M2 (Retained Earnings Reconciliation Worksheet)

- Form and worksheet references

NOTE

Form and worksheet references are for the benefit of the preparer and client but are not required for the tax return. References appear on tax forms to clarify which worksheets (available in View mode) correspond to which calculations, and which forms/screens certain amounts are carried from.

K-1 Items The following K-1 items can be “forced” (forcing the program to generate the item) on a return:

- Shareholder’s adjusted basis worksheet (WK_SBAS)
- K-1 codes (page 2 of the Schedule K-1)

The following K-1 items can be “suppressed” (kept from being generated) on a return:

- Related documents: Schedule K-1, K-1 cover letter, K1_ATT worksheet (for K-1 statement overflow), and shareholder’s adjusted basis worksheet (WK_SBAS)
- Marking of “Amended K-1” box on printed Schedule K-1
- K1-DIST worksheet

Overriding Other Setup Options

Filing instructions and envelope coversheets can be either forced or suppressed from the **PRNT** screen to override the global setting in **Setup > Options > Optional Documents** tab.

The **PRNT** screen also includes options to disable autobalance (see “Autobalance” on page 29), calculate the Form 2220 penalty, and prepare an extension (Form 7004) based on the data entered on screen **1**. (See “Filing an Extension” on page 17.)

Electronic Filing

Steps for e-filing Form 1120S are the same as for e-filing Form 1040, with the exception of bankruptcy returns, which must be paper-filed.

NOTES

An S corporation with \$10 million or more in total assets that files 250 or more returns a year is required to e-file its Form 1120S returns.

Every 1099, W-2, 940, and 941 form that is filed is counted as part of the 250-return threshold. For example, if a corporation filing an 1120S return also files 150 W-2 forms, each W-2 would count as a separate return within the 250-return threshold.

Calendar year returns are due on March 16, 2015. Fiscal year returns are due on the 15th day of the third month (two and a half months) after the S corporation’s year end. Returns can be e-filed after these dates; however, if an extension has not been filed, penalties and interest are applied.

Additional Return Types

Short-year returns, 52–53-week year returns, and inactive returns can all be e-filed using Drake. For information on how to indicate a short-year return in Drake, see “Short-Year Returns” on page 6. Information on e-filing 52–53-week returns and short-year returns is provided in the following sections.

Electing a 52-53-Week Year (Initial Return)

To elect a 52-53-week year, a *new* entity (one that has never filed a return) must enter data on both screen **1** and the **ELEC** screen.

To elect a 52-53-week year for any entity:

1. In the **If not calendar year** section of screen **1**, enter the **Fiscal year begins** and **Fiscal year ends** dates. Use MMDDYYYY format, as shown in the example in Figure 22.
2. Mark the **52-53-week tax year** box.

Figure 22: In this example, the fiscal year begins 09/24/2014 and ends 09/30/2015 (the Wednesday closest to the end of September), giving the entity a 53-week year for 2014.

NOTE

An entity that has filed returns in the past must complete only steps 1 and 2 of this process. An entity that has never filed a return before must continue with steps 3 through 6.

3. Click the **ELEC** link to open the **Election Options** screen (Figure 23).

Figure 23: Elections for 52-53-week tax years

4. For line **1**, select the month in which the 52-53-week year ends for the current fiscal year. (01 = January, 02 = February, etc.)
5. For line **2**, select the day of the week the tax year always ends.
6. For line **3**, enter the actual date that the tax year ends (the same date entered in the **Fiscal year ends** field on screen **1**).

NOTE

Once a 52–53-week year is selected, the entity must use that accounting period every year. To change accounting periods, the entity must submit to the IRS Form 3115, Application for Change in Accounting Method.

In subsequent years, only the **52-53-week tax year** check box on screen **1** must be marked; the program automatically updates the dates.

Inactive Returns

Entities that are inactive but are still required to file returns may e-file inactive returns in Drake. To indicate that a return is inactive:

1. Go to the **PRNT** screen, accessible from the **General** tab.
2. Under **Items to Print**, mark the **Print inactive return** box.

When the return is calculated, the program displays the words "Inactive Return" on the main form of the return (specifically, in the box above line 1c). Zeros are displayed where required by the IRS in order for amounts to be properly included in the e-file data.

NOTE All EF messages must be cleared in order to e-file an inactive return.

For detailed instructions on e-filing returns in Drake, see *Drake Software User's Manual: Tax Year 2014*.

Common Error Codes

If one or more of the following IRS error reject codes is generated when e-filing an 1120S return, the preparer must contact the IRS for further information. The IRS e-Help Desk telephone number is (866) 255-0654.

- **Reject Code R0000-900-01** — The return type indicated in the return header must match the return type established with the IRS for this EIN. If you get this reject code, you must contact the IRS to correct its database or paper-file this return.
- **Reject Code R0000-90501** — Electronic Filing Identification Number (EFIN) in the return header must be listed in the e-file database and in "accepted status." If you get this reject code, you must update your e-file application to include the 1120S return type. This should be done at the IRS website. Review publication 3112 for details.
- **Reject Code F1120S-239-01** — Filer's TIN and Name Control in the return header must match data in the e-file database unless Form 1120S, Item H (2), "Name Change" box is marked.

Binary Attachments

Binary, or PDF, files can be attached to certain tax forms. These attachments are generally signature or third-party documents such as a copy of a signed lease or a signed appraisal statement. In some instances, the IRS requires that a document be attached to an e-filed return; in other instances, a document can be attached voluntarily to support or explain an entry in the return. In either case, a document must be printed and scanned into the computer (or "saved" as a PDF document), and attached to the return in order to be e-filed with the return.

You can attach PDF files to federal S corporation 1120S returns for e-filing. The **PDF Attachments** screen is accessible from the **Data Entry Menu**.

The PDF Attachment Process

Three main steps are involved in the PDF attachment process in Drake:

1. Creating a PDF document to be attached
2. Informing the program that a PDF document will be sent with the return
3. Attaching the PDF document for e-filing

These steps are described in the following sections.

Creating a PDF File

To create a PDF file:

1. Scan the document to be attached to the return.

TIP

It's a good idea to use the DDM scanning feature for this step.

2. Save the document to your client's DDM file, your computer's desktop, or anywhere you can readily find it.

NOTE

Many types of documents (for instance, documents created in Microsoft Word) can be printed or "saved" as PDF documents if you have a PDF printer (such as Adobe Reader) installed.

Adding PDF Documents in Drake

To indicate in the software that a PDF document will be sent with the return:

1. Open the return in Drake. From the **Data Entry Menu**, click **PDF Attachments** (or type PDF in the selector field and press ENTER).(See Figure 24.)

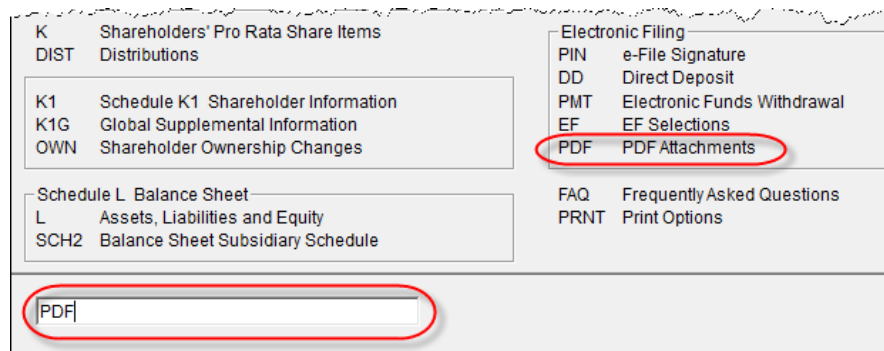


Figure 24: Select **PDF Attachments**, or type PDF into the selector field and press ENTER

2. Fill out the columns on the **PDF Attachments** screen. See Table 3 for examples.

Table 3: PDF Attachment Window Columns

Name of Column	Description	Examples
Reference Source	Name or number of regulation, publication, or form instruction that makes attachments necessary	- IRS Pub xxx-1.4 - Form Instructions for 1120S
Description	Description of form or document to be attached	- Title of house on Oak Street - Appraisal of Lot 1234
File name	Distinctive, easily recognizable file name, followed by ".pdf"	- TitleHouseOakSt.pdf - AppraisalLot1234.pdf

3. Exit the **PDF Attachments** window.

Because you've indicated that a PDF document is attached, the program generates an EF message page regarding the attachment when the return is calculated.

Attaching Documents to the Return

To attach a PDF file to a return:

1. From the toolbar, click **View**. If anything was entered in the **PDF Attachments** window (see "Adding PDF Documents in Drake," previously), there will be two PDF-related items in the **View/Print** window:
 - An EF Message (item #1 in Figure 25)
 - An **Attach PDF** button on the toolbar (item #2 in Figure 25)

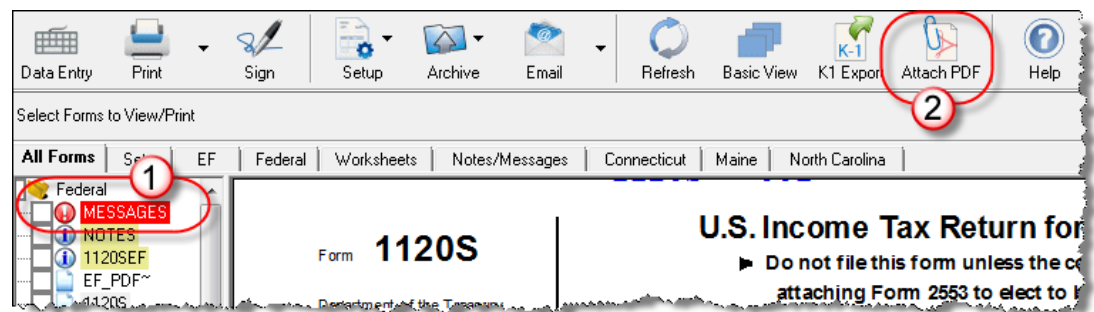


Figure 25: The Message file and the Attach PDF button

2. Click the **Message** file to view EF messages, including information on how to attach the required documents to the return.
3. Click the **Attach PDF** button. The **EF PDF Attachments** window displays the information entered on the **PDF Attachments** window in data entry (Figure 26 on page 46). A red X means the document has not yet been attached; a green check mark indicates an attached document.

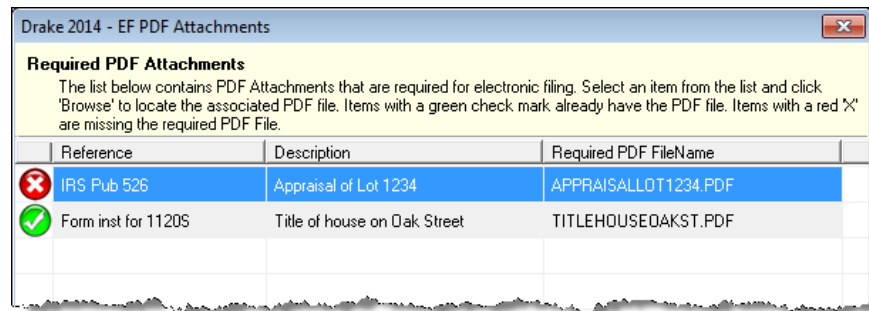


Figure 26: The EF PDF Attachments window

4. Click the row of a document to attach.
5. Click **Browse**.
6. Browse to the proper folder, select the PDF file to attach, and click **Open** (or double-click the file name).

Repeat for all documents with a red X. When all documents have been attached to a completed return, recalculate to clear the EF Message. The return is now ready to be e-filed.

Printing Generated Documents

In some instances, Drake generates a document that must be printed, signed, and scanned back into the computer to be attached to the return. For example, if Form 2553, Election by a Small Business Corporation, is present in an S corporation return (and the **Attaching Form 2553 as a PDF document** check box is marked on screen 1), EF Message 1513 is generated when the return is calculated.

1513 ATTACH FORM 2553: The check box for "Attaching Form 2553 as a PDF document" on screen 1 has been marked, but no Form 2553 has been attached. Form 2553 must be prepared and attached before the return can be e-filed.

To prepare Form 2553 for attachment:

1. Ensure that the 2553 screen has been completed in data entry.
2. Calculate the return.
3. In View/Print mode, select and print Form 2553.
4. Have all shareholders sign the form.

To attach the signed Form 2553 to the return:

1. Scan the signed form and save it as a PDF document.
2. Go to View mode of the return.
3. Attach the scanned PDF document to the return using the PDF icon at the top of the screen.

For detailed instructions on attaching this form to a return, go to the FAQ screen and click "Attaching Form 2553 as a PDF Document."

Figure 27: EF Message

As shown in Figure 27 on page 46, the EF Message states that attachments are required. You would then need to obtain or complete the statements, scan them into the computer, save them as PDF documents, and attach them to the return.

Importing Trial Balance Information

Drake's trial balance import feature allows data to be imported into an 1120S return from a trial balance worksheet. The trial balance template and importing function has the following benefits:

- Eliminates the need to duplicate entries
- Reduces data entry errors by automatically importing data to the correct fields
- Allows preparers to merge basic accounting functions with tax preparation

NOTE A flow chart of the trial balance importing process is available as an appendix at the end of this manual.

Preparing to Use Trial Balance Import

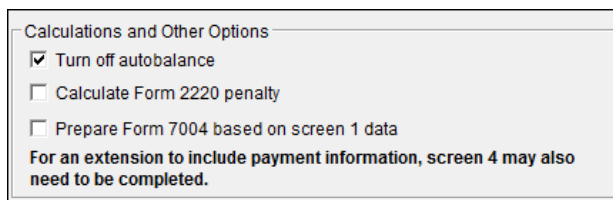
The trial balance import function can be used only on returns that were created in Drake 2008 or later. If you haven't already, create a client file in Drake or update an existing client file from the prior year. Like several other functions of the tax software, this feature requires Microsoft Excel (version 2000 or later).

In addition, take these actions to ensure the trial balance import works properly:

- **Activate Macros** — The trial balance import function uses macros in Microsoft Excel. Check your Excel settings to ensure that macros are activated and that macro settings are set to "Disable all macros with notification." To do so, go to **File > Options** in Excel and select the **Trust Center** tab. Click **Macro Settings** and select **Disable all macros with notification**, then click **OK**.

NOTE In Excel 2007, click the **Office** button in the upper left and then click the **Excel Options** button at the bottom of the window. (In Excel 2010 and 2013, click the **File** tab then select **Options** from the menu on the left.) Next, select **Trust Center** from the list at left, then click the **Trust Center Settings** button. Select **Macro Settings** from the list on the left, then choose **Disable all macros with notification**. Click **OK** and then **OK**.

- **Disable Autobalance** — (optional) When autobalance is disabled, the program is prevented from automatically adjusting the year-end retained earnings or capital amounts, thus allowing you to see any discrepancies in the balance sheet. To disable autobalance, go to the **PRNT** screen and select **Turn off autobalance**.



Calculations and Other Options

☒ Turn off autobalance

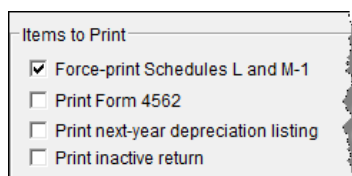
☐ Calculate Form 2220 penalty

☐ Prepare Form 7004 based on screen 1 data

For an extension to include payment information, screen 4 may also need to be completed.

Figure 28: Disable autobalance in the **Calculations and Other Options** section of **PRNT** screen

- **Force Schedule L** — By default, the program does not display the balance sheet amounts on the return if the entity does not meet the filing requirement. If this is the case, you must override the default setting in order to have the amounts shown on Schedule L. To force the Schedule L amounts to be printed, go to the **PRNT** screen and select the **Force-print Schedules L and M-1** box.



Items to Print

☒ Force-print Schedules L and M-1

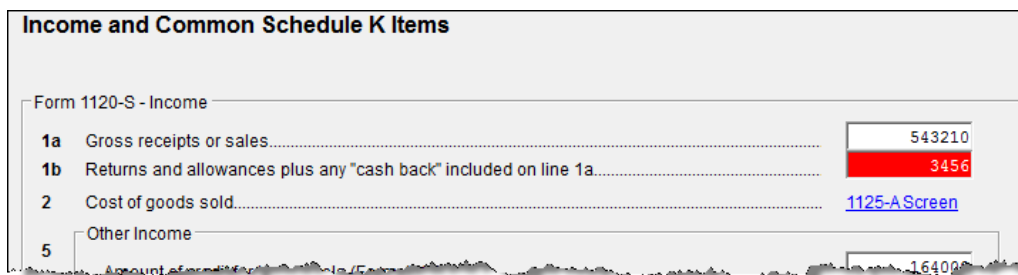
☐ Print Form 4562

☐ Print next-year depreciation listing

☐ Print inactive return

Figure 29: Force Schedule L box for 1120S package

- **Check for Detail Worksheets** — The trial balance import allows only those detail worksheets required by the IRS. Check updated returns for detail (CTRL+W) worksheets that are *not* required. For example, the IRS does not require a detail worksheet for the **Gross receipts** field on the **INC** screen; if a return has a detail worksheet for that field, the trial balance will not be imported correctly into the return. Detail worksheets are indicated by red shading, as shown in Figure 30.



Income and Common Schedule K Items

Form 1120-S - Income

1a	Gross receipts or sales.....	543210
1b	Returns and allowances plus any "cash back" included on line 1a.....	3456
2	Cost of goods sold.....	1125-A Screen
5	Other Income.....	16400

Figure 30: Example of an “unnecessary” detail worksheet

Remove unnecessary detail worksheets prior to import. See “Detail Worksheets” on page 50 for more information on using detail worksheets in the trial balance.

Preparing Financial Data for Import

To prepare the financial data for importing into the return, the data must be entered into Drake’s specially designed trial balance template. Once this information is entered and saved, it can be imported into the return.

Opening a Template

The first step in preparing financial data for importing is to open a trial balance template for the return and enter the financial data.

To open a trial balance template for a return:



1. Open the return to the **Data Entry Menu**.
2. Click **Import > Trial Balance Import** in the menu toolbar. The preliminary **Trial Balance Import** dialog box is opened.
3. Click **Create New** or **Open Existing**. If opening an existing file, click **Open** after selecting the correct file.
4. If a **Security Warning** box appears, click **Enable Macros**.

NOTE

In Excel 2007 and 2010 you may see a **Security Warning** message with an **Options** button. Click **Options** to open the **Security Options** dialog box, then select **Enable this content**. Click **OK**. (In Excel 2013, click **Enable Content**.)

The trial balance template is displayed in Microsoft Excel.

Naming Convention

Whenever a new template is opened, the tax software assigns it a default file location and name. Trial balance templates are saved in the TB folder of your Drake14 software.

To change the name of a file in Excel, select **File > Save As** and assign the new name.

NOTE

If saving a trial balance to a different location, make a note of where you're storing it. The program automatically looks in the default directory.

Template Structure

The trial balance template consists of three title rows and six columns. The **Entity Name** and **Year End** title rows can be edited; double-click a row to change the title. Columns are described in Table 4.

Table 4: Trial Balance Template Columns

Column	Description
Account Title	Title of account
Debit/Credit	Debit and credit amounts
Import to	Screen and line in Drake to which the debit or credit amount is imported
Reported on	Location of the amount on the printed return
Other information	Additional details for preparers; see "Details for Preparers" on page 53.

Displayed at the bottom of the trial balance worksheet are the calculated amount for Schedule M-1, line 1; the credit and debit totals; a cell showing whether or not the balance sheet is out of balance and, if applicable, the out-of-balance amount (Figure 31 on page 50; see also Figure 34 on page 51).

Salaries and wages - shareholder employees		\$0
Waste removal		\$0
Net Income (Loss) = Schedule M-1, line 1	\$100,600	
Totals	\$549,850	\$549,850
OUT OF BALANCE?		\$0

Figure 31: Schedule M-1 amount (1); totals (2); and indication of balance (3)

Following are instructions and guidelines for using the trial balance template to assemble financial data for importing into data entry.

Entering Financial Data

When a new trial balance file is opened for a return, all debit and credit amounts are zero (\$0). All data must be entered manually into the template.

NOTE

Some data cannot be imported with the trial balance and must be entered directly into the data entry fields within the program. For more on these categories of data, see "Special Conditions" on page 53.

Direct Entry

Most cells in the trial balance worksheet are view-only. In a new template, editable debit and credit cells are indicated by a dollar amount (\$0) and are not gray.

Detail Worksheets

Some cells require more detail than can be entered on a single line. These cells are indicated by buttons. (If these cells do not work, you may need to enable them; see the Note in "Opening a Template" on page 49.)

\$0	K, line 6	Schedule K, line 6
\$0	does not carry	detail required
\$0	does not carry	detail required
\$0	Book Income	requires detail
\$0	Other Income	requires detail
\$0	Sch K Income	requires detail
\$0	Sch K Deductions	requires detail
	A, line 2	Form 1125-A, line 2

Figure 32: Example of cells that require worksheets

Click a worksheet button to open a worksheet in a new tab. Figure 33 on page 51 shows an example of the "Other Income" worksheet.

Statement Required - Other Income		
Form 1120S, page 1, line 5; INC line 5		
Line Description	Amount	Import to:
1 Amount of credit for tax on fuels (Form 4136)	\$0	INC, line 5
2 Interest income on receivables	\$0	INC, line 5
3 Recoveries of bad debts deducted in earlier years	\$0	INC, line 5
4 Section 481 adjustments	\$0	INC, line 5
5 State tax refund (cash basis)	\$0	INC, line 5
6 Taxable income from insurance proceeds	\$0	INC, line 5
7 Other	\$0	Other Income Detail
Total other income	\$0	

Click to return to TB

SBS TB Other Income

Figure 33: Trial balance worksheet for "Other Income"

To return to the previous worksheet, click the **SBS TB** tab (labeled "1" in Figure 33), or click the **Click to return to TB** button above the worksheet tabs (labeled "2" in Figure 33). Note that a detail tab (the "Other Income" tab in the lower left of Figure 33) might include one or more detail worksheets (labeled "3" in Figure 33).

NOTE

Do not create detail worksheets in data entry if the trial balance worksheet does not provide an equivalent detail worksheet, or the trial balance will not be imported correctly.

Totals Totals are displayed at the bottom of each worksheet. If credit and debit columns are out of balance, the worksheet highlights the out-of-balance amount (Figure 34).

Totals	\$12,900	\$4,100
	OUT OF BALANCE?	\$8,800

SBS TB

Figure 34: Out-of-balance amount is highlighted if columns are out of balance.

In addition to credit and debit totals, the main trial balance worksheet shows the net income (loss) to be calculated for line 1 of Schedule M-1 after all entries and adjustments are made in the software.

NOTE

The data cannot be imported if the worksheet is out of balance.

Saving a File

To save a file, click the **Save** icon or select **File > Save** from the menu bar. (In Excel 2007 and 2010, click the **Office** button in the upper-left corner and select **Save**. In Excel 2013, click the **File** tab then **Save**.) To re-name a file when saving, select **File > Save As**. For more information on file names in the trial balance program, see "Naming Convention" on page 49.

Importing Data into a Return

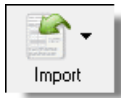
Once a trial balance worksheet has been set up for a client in Drake, the trial balance information can be imported into the program and calculated into the return.

NOTES

Not all trial balance data can be imported directly into a return. For information on program limitations, see "Special Conditions" on page 53.

If you are already in the Trial Balance Import tool for the selected return, go to the **Trial Balance Import** window in Drake and start at Step 3 of the following procedure.

To import a trial balance into a return:



1. Open the return to which you will import the trial balance information.
2. Click **Import > Trial Balance Import** from the menu toolbar. The preliminary **Trial Balance Import** dialog box is opened.
3. Click **Next**.
4. Enter or select the trial balance file to be imported. If necessary, click the button to the right of **1. Import File Name** to browse to the proper folder. By default, each trial balance file is an Excel (.xls) file showing the client name and ending in "TB" for trial balance, as shown in the example in Figure 35. (See "Naming Convention" on page 49.)

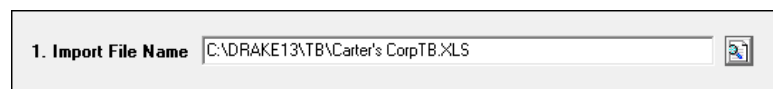


Figure 35: Selected file to import

5. Select the **Trial Balance Additional Import Options**. (See "Additional Import Options" following this procedure.)
6. Click **Next** and wait for the import to be completed.
7. Click **Finish**.

The program returns to the **Data Entry Menu** for the open return. Note that all selected data from the trial balance worksheet has been imported into the return. This can be seen both in the data entry screens and on the generated return.

NOTE

If the program does not calculate the trial-balance information as expected, you can return to the trial balance worksheet, make adjustments, and import the worksheet again.

Additional Import Options

The program can import the following additional information when importing the trial balance data (select the items to import or click **Select All**):

Buildings & other depreciable assets	Accumulated depreciation
Land	Goodwill & other intangible assets
Accumulated amortization	8825/Rent information
Cost of goods sold depreciation	

Special Conditions

Some items cannot be entered into the trial balance worksheet and must be typed directly into data entry. Other items should be entered into the worksheet for balance purposes but are not imported to data entry; these must be entered separately and the calculated results compared to the trial balance worksheet.

Details for Preparers

Most items go directly to the location indicated in the program and on the return. For example, the amounts shown in Figure 36 go to Schedule L, line 1, column d in the program and are shown on page 4, Schedule L, line 1, column d of the 1120S return.

Debit	Credit	Import to:	Reported on:
\$420,050		L, line 1, col d	Form 1120S, Sch L, line 1, col d
	\$0	L, line 2a, col c	Form 1120S, Sch L, line 2a, col c

Figure 36: Indication of where an amount will go in Drake and on the return

The “Other Information” column in the trial balance worksheet indicates special conditions and additional information regarding certain rows. Table 5 describes the most common notes in this column.

Table 5: “Other Information” Column Notes

Note	Description
not included in totals	The amount is required for importing purposes only but is not included in the totals shown on the trial balance.
does not carry	Information cannot be imported and must be entered on the appropriate screen in Drake. Screen is specified in “Reported on” column.
optional	Amount is optional; not required for import, but could require direct entry in the software.
include deficit as negative number	Some deficits must be entered as negative numbers.
import includes the calculated change in inventory	Used for “total purchases”; when calculating cost of goods sold (COGS) in the return, the program takes the change in inventory into account for the Form 1125-A calculation.

Table 5: "Other Information" Column Notes

Note	Description
[Form or Schedule] may be required	Non-financial information must be completed in Drake, in addition to the financial data entered in the worksheet.

All "does not carry" notes are accompanied by further instructions in the "Import to" column to the left of the "Reported on" column, as shown in Figure 37.

SCH2 Detail Typically, a balance sheet subsidiary schedule (SCH2 detail screen for Schedule L) is required for an item marked "does not carry" on the trial balance.

Account Title	Debit	Credit	Import to:	Reported on:	Other Information
Cash	\$0		L, line 1, col d	Form 1120S, Sch L, line 1, col d	
U.S. government securities	\$0		L, line 4, col d	Form 1120S, Sch L, line 4 col d	
Tax-exempt securities	\$0		L, line 5, col d	Form 1120S, Sch L, line 5 col d	
Other current assets	\$0		Other current assets detail	SCH2 detail required in Drake	does not carry
Loans to shareholders	\$0		L, line 7, col d	Form 1120S, Sch L, line 7, col d	
Mortgage and real estate loans	\$0		L, line 8, col d	Form 1120S, Sch L, line 8, col d	
Other investments	\$0		Other investments detail	SCH2 detail required in Drake	does not carry
Buildings and other depreciable assets	\$0		L, line 10a, col c	Form 1120S, Sch L, line 10a, col c	optional
Accumulated depreciation		\$0	L, line 10b, col c	Form 1120S, Sch L, line 10b, col c	optional

Figure 37: SCH2 screen required for "do not carry" items

To complete an SCH2 detail screen in data entry:

1. Open the SCH2 screen in the return.
2. Select the line number from the SCH2 drop list.
3. Enter the applicable item descriptions and beginning- and end-of-year totals.

To enter details for additional lines of the Schedule L, press PAGE DOWN and repeat steps 2 and 3. Data is saved automatically upon entry.

When the return is produced, the Schedule L of the return reflects both the amounts imported from the trial balance worksheet and the totals of the amounts entered on the SCH2 screen.

See "The SCH2 Screen" on page 28 for more details on using the SCH2 screen.

Depreciation S corporation returns can have up to four components of total depreciation:

- COGS
- Real estate rental
- Rental other than real estate
- Any remaining depreciation

For trial balance purposes, enter depreciation amounts directly into the appropriate fields on the trial balance worksheet. Note that, for 1120S trial balances, rental expense detail worksheets are required for **8825** and **RENT** depreciation.

NOTE

Enter **8825** and **RENT** depreciation amounts in the detail worksheets for importing purposes, but be aware that the **8825** and **RENT** screens in the program will have to be edited if **4562** detail screens (see Figure 38) are used.

When the trial balance is imported, the COGS depreciation expense amount flows directly to the appropriate line of Form 1125-A of the return, and the rental depreciation expense amounts flow directly to the appropriate lines of the **8825** and **RENT** screens, as applicable. Because the remaining depreciation can comprise any number of assets, the amount entered on the trial balance does *not* flow to the return. To ensure that each component of the total remaining depreciation is calculated into the return, each asset must be entered on the applicable depreciation screens in data entry (Figure 38).

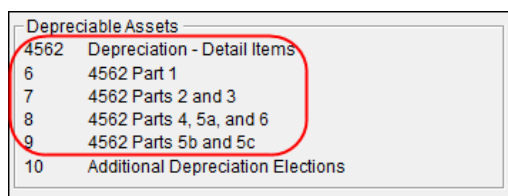


Figure 38: Enter depreciable asset data on a **4562** detail screen, or enter the total depreciation on the override screens (screens **6**, **7**, **8**, and **9**).

NOTE

Entering the remainder of the depreciation on the trial balance worksheet helps ensure that the balance sheet balances and provides a way to check that the amount on line 1 of Schedule M-1 is correct. Compare the calculated line 1 at the bottom of the trial balance to the equivalent line on Schedule M-1 of the calculated return. If the depreciation amounts match but the line 1 amounts differ, an M-1 adjustment could be required.

Rental Expenses

The following information applies only to S corporations with multiple rental properties.

The S corporation trial balances include lines for rental income and expenses (Figure 39 on page 56). Both rental expense items require a trial balance detail worksheet.

Account Title	Debit	Credit	Import to:	Reported on:
Cash	\$0		L, line 1, col d	Form 1120S, Sch L, line 1, col d
Trade and accounts receivable	\$0		L, line 2a, col c	Form 1120S, Sch L, line 2a, col c
Allowance for bad debts		\$0	L, line 2b, col c	Form 1120S, Sch L, line 2a, col c
Tax-exempt interest		\$0	K, line 16a	Sch K, line 16a, Sch M-1, Line 5
Gross real estate rental income		\$0	8825, line 2	Form 8825, line 2
Total real estate rental expenses	\$600		Real Estate Rental Exp	requires detail
Gross other rental income		\$0	RENT, line 1	Rent, Line 1
Total other rental expenses	\$0		Other Rental Exp	requires detail
Gross royalties		\$600	K, line 6	Schedule K, line 6
Capital gains or losses	\$0	\$0	does not carry	detail required on Schedule D

Figure 39: Rental expense rows on an S corporation trial balance worksheet

When imported, the rental expense data entered on the trial balance worksheet appears on either the **8825** screen (if real estate rental) or the **RENT** screen (if rental other than real estate).

Because the trial balance worksheet has only one detail screen per rental type, the importing function does not accommodate entities with multiple rental properties or expenses; however, the following procedure allows the trial balance to remain in balance if there are multiple rental properties or expenses.

To accommodate entities with multiple rental properties or expenses:

1. Calculate the totals for both types of rental expenses.
2. Enter the income totals on the trial balance sheet and the expense totals on the applicable detail sheets (Figure 39).
3. Ensure that the balance sheet is in balance.
4. Import the trial balance worksheet into the return. The applicable screens in data entry now contain the figures entered on the trial balance worksheet.
5. Enter the amounts on additional screens that require details. (For more information on data that cannot be imported, see "Special Conditions" on page 53.)
6. Compare the M-1, line 1 amount on the trial balance to the M-1, line 1 amount on the calculated return to ensure that they match.

NOTE

If the amounts do *not* match, review the imported amounts to ensure that all data was imported. If the data appears to have imported correctly, an M-1 adjustment could be necessary.

7. Complete all **8825** or **RENT** screens in data entry, as applicable, for the individual rental properties or items.
8. Delete the **8825** and **RENT** screens that were imported from the trial balance (the screens reflecting the total rental expenses).

NOTE

To delete a screen in data entry, open the screen and press CTRL+D. If a multiple forms list appears, ensure that the screen to delete is selected, then click **Delete**.

Form 3115, Application for Change in Accounting Method

Form 3115, Application for Change in Accounting Method, is an application to the IRS to change either an entity's overall accounting method or the accounting treatment of any item.

New for 2014: Form 3115, Application for Change in Accounting Method, is eligible for e-file.

Drake customers can fill out and e-file Forms 3115 and related schedules and attachments for corporation returns. This section provides instructions for completing this form and related schedules and attachments in Drake.

In some cases, Form 3115 must still be paper-filed. See "Parts I and III," following, for details.

NOTES

Applicants filing Form 3115 should refer to Rev Proc. 2015-13 for general automatic change procedures, and to Rev Proc. 2015-14 for a list of automatic changes to which the automatic change procedures in Rev. Proc. 2015-13 apply.

When you open the **3115** screen from the **Data Entry Menu**, the program displays the first of five **3115** screens. These five screens are:

- **Parts I, III** (Form 3115, Parts I and III)
- **Parts II, IV** (Form 3115, Parts II and IV)
- **A, B, C** (Form 3115, Schedules A, B, and C)
- **D - I, II** (Form 3115, Schedule D, Parts I and II)
- **D - III** (Form 3115, Schedule D, Part III)

As shown in Figure 40, you can access these **3115** screens by clicking a link at the top of any other **3115** screen.

Figure 40: Tab links on **3115** screen

The next few sections of this document provide instructions for completing the various screens for Form 3115 (including Schedules A through D).

Parts I and III

Use the **Parts I, III** screen to complete the following sections of Form 3115:

- General Information
- Part I, Information For Automatic Change Request

- Part III, Information For Advance Consent Request

NOTE Information should be entered in either the **Part I** section or the **Part III** section, but not both.

General Information

Complete all applicable fields in the **General Information** section. Note that the fields for business activity and tax-year change are override fields (Figure 41). Complete these fields only if you want to override the equivalent information entered on screen **1** or screen **K**.

Figure 41: Override fields in the **General Information** sections of the **Parts I, III** screen

On the **Type of accounting method change being requested** line, select **Depreciation or amortization**, or **Financial products and/or financial activities**. If requesting another method, describe it in the **Other** text box. (The text box is limited to 20 characters.)

For advance consent requests, state in the **Other** text box the type of method change being requested and a short description of the change (for example, LIFO to FIFO.)

NOTE

For automatic change requests, these informational requirements are satisfied by properly completing Part I, lines 1a and 1b of Form 3115. (See "Part I," following.)

Part I From the drop list on line 1a, choose a **Designated accounting method change number**. If the method is not listed, enter the method on line 1b, in the **Other** text box.

IMPORTANT

The IRS issued Rev. Proc. 2014-16 to explain how taxpayers can elect to automatically change their accounting methods in order to comply with provisions of the final capitalization regulations. Rev. Proc. 2014-54 further explains how taxpayers can elect to automatically change their accounting methods for the disposition of property in order to conform with the regulations relating to the disposition of capital assets.

Other resources include Drake's Knowledge Base article 13402. (For information on using the Drake Knowledge Base, see Chapter 10 of *Drake Software User's Manual: Tax Year 2014*.)

If any of the scope limitations of section 4.02 of Rev. Proc. 2008-52 apply, mark the **Yes** check box on line 2.

IMPORTANT

By answering **Yes** on line 2, you are stating that the Appendix of Rev. Proc. 2002-9 or the procedures in other published guidelines specifically state that the scope limitations are applicable to the required accounting method change.

If you answer **Yes** on line 2, you must complete all the lines in **Part II, Information for All Requests**. (Click the **Parts II,IV** link at the top of the screen to access Part II.)

See Form 3115 instructions for more information.

After answering 1a, 1b, and 2 in **Part I - Information for Automatic Change Request**, click the blue **Parts II, IV** tab at the top of the screen.

Part II In **Part II – Information for All Requests**, answer question 3 (see Figure 42). If the answer is **Yes**:

- Ordinarily, the IRS will not consent to a request for a change in method of accounting for the applicant's final tax year. If the applicant ceases to engage in the trade or business to which the desired change in accounting method relates or terminates its existence in the year of change, the applicant is ordinarily not eligible to make the change under automatic change request procedures unless the applicable section of the Appendix of Rev. Proc. 2011-14 or other applicable published guidance states that section 4.02(5) of Rev. Proc. 2011-14 does not apply to the requested change in method of accounting. If the change is requested under the advance consent procedures, the IRS National Office will consider the reasons for the change in the applicant's final year (see Part III, line 21) in determining whether to approve the requested change.
- See IRS Form 3115 instructions for details.

Figure 42: Automatic Change Request information

NOTE

Not all applicants are eligible to use the automatic change request procedures.

Part III If this section of the **Parts I, III** screen is filled out, Form 3115 cannot be e-filed with the return. It must instead be paper-filed *before* submitting the return. A user fee (a check or money order payable to the IRS) must be included with the paper-filed form.

NOTES

See Appendix A of Rev. Proc. 2012-1 for more information. For more on applicants who must apply for advance consent, see the IRS Form 3115 instructions.

Taxpayers filing under an automatic change request procedure do not pay a user fee.

If the applicant qualifies for a *reduced* user fee, enter a check mark on line **23b** and go to screen **ATT2** to complete the attachment information for Part III, line 23b (located in the bottom half of the screen). Include the necessary information or certification required by Rev. Proc. 2013-1 (or its successor).

Specific statements must also be attached to the return if the applicant answers **Yes** for line **18** ("Is change request allowed under automatic change?") or **No** for line **22** ("All members of consolidated group use proposed method?"). Press F1 in a specific field for more information on attachment requirements. The method for attaching statements in Drake is covered in "Binary Attachments" on page 43.

Multiple Accounting Method Changes

If requesting multiple automatic accounting method change requests on one Form 3115, go to screen **3115** and in the **Part 1—Information for Automatic Change Request** section, make a selection from the drop list on line 1a, then use the drop lists below line 1a (see Figure 43) to select account method changes being requested.

Figure 43: Making multiple automatic accounting method change requests

On page 1 of Form 3115, the "Other" check box under "the type of accounting method change being requested" will be marked and a note indicating that multiple automatic change requests ("MULTI AUTO CHNG RQST") have been made (#1 in Figure 44 on page 61), and the designated change numbers of the requests appear in the "Description" field of Part 1 (#2 in Figure 44 on page 61).

Figure 44: Accounting change requests noted on Form 3115

Parts II and IV

In addition to the **Multi-form code** text box, the **Parts II, IV** screen consists of the **Part II** and **Part IV** sections, used to complete the following sections of Form 3115:

- Part II, Information For All Requests
- Part IV, Section 481(a) Adjustment

Applicants must complete both sections of this screen. For more information on each line (including instructions for any required attachments), press F1 in a specific field.

Part II, Line 12

Note that there is no field on the **Parts II, IV** screen for Part II, line 12. There is, instead, a link to screen **ATT2**. Fields for line 12, which should be completed if the applicant is changing *only* the accounting method for a particular item or items, are located in the top half of **ATT2** screen. Use these fields to enter information on:

- The items being changed
- The applicant's present and proposed methods for the items being changed
- The applicant's present overall method of accounting (cash, accrual, or hybrid)

Note that the bottom half of the **ATT2** screen is for completing Part III, line 23b. Only the top half (for Part II, line 12) must be completed for Part II, line 12.

Schedules A, B, and C

Use the **A, B, C** screen to complete the following sections of Form 3115:

- Schedule A, Change in Overall Method of Accounting (screen covers Part I, Change in Overall Method)
- Schedule B, Change to the Deferral Method for Advance Payments
- Schedule C, Changes Within the LIFO Inventory Method (screen covers both Part I, General LIFO Information, and Part II, Change in Pooling Inventories)

NOTE

Schedule A, Part II (Change to the Cash Method for Advance Consent Request) requires attachments and is not addressed on the **A, B, C** screen.

Schedule A This section is required for all applicants filing to change their overall method of accounting. It requires the entry of amounts as they were at the close of the tax year preceding the year of the requested change.

NOTE Leave blank any lines that aren't required for the entity's application. Exclude amounts not attributable to the change in method of accounting—for example, amounts that correct a math or posting error, or that correct errors in calculating tax liability.

The IRS requires a worksheet for lines 1a, 1c, 1d, 1e, and 1f of Schedule A. When you enter an amount on any of these lines in Drake, a CTRL+W worksheet is automatically opened, allowing you to begin entering the descriptions and amounts of multiple items for the worksheet. When you close a CTRL+W worksheet, the program returns to the original screen and displays the total in the field. The field is shaded (default is red) to indicate that a CTRL+W worksheet has been used.

NOTE If nothing is entered in a Schedule A field, the program automatically displays the word "NONE" in the field on the generated form.

Schedule B This section has just two lines, both referring to the request for deferral for advance payments:

- **Line 1** — Request change to the deferral method for advance payments (from section 5.02 of Rev. Proc. 2004-34)
- **Line 2** — Request change to the deferral method for advance payments (from section 1.451-5(b)(1)(ii))

See IRS Form 3115 instructions for more information on making these requests.

Schedule C This section has two parts:

- **Part I** (General LIFO Information) — This section is made up of attachment links. If any of the conditions on lines 1–6 match the entity's situation, click the corresponding attachment link to access the **ATT** screen, where you can complete the required statement. (Select the corresponding line code from the **Schedule** drop list on the **ATT** screen.)
- **Part II** (Change in Pooling Inventories) — Enter the descriptions of the contents and the base years of the present and proposed pools. If any of the conditions on lines 2–4 match the entity's situation, click the corresponding attachment link to access the **ATT** screen, where you can complete the required statement.

Schedule D, Parts I and II Use the **D - I, II** screen to complete the following parts of Form 3115, Schedule D, Change in the Treatment of Long-Term Contracts Under Section 460, Inventories, or Other Section 263A Assets:

- Part I, Change in Reporting Income From Long-Term Contracts

- Part II, Change in Valuing Inventories Including Cost Allocation Changes

NOTE

If an entity is currently using a LIFO inventory method or submethod and is changing to another LIFO inventory method or submethod, Part II of Schedule D is not applicable. Use Schedule C, Changes Within the LIFO Inventory Method, instead.

Schedule D, Part I

A long-term contract refers to any contract for the manufacture, building, installation, or construction of property that is not completed in the tax year in which it is entered into. Answer the questions in **Part I** that apply to the entity's situation.

Schedule D, Part II

This section concerns changes in the identification and valuation methods of inventories. Note that some lines require attachments. To access the **ATT** screen and complete a required statement, click the desired attachment link.

The items on this part of the screen match the items on the actual Form 3115, Schedule D. For information on completing individual lines, see the Form 3115 instructions.

NOTE

If the entity is unable to furnish a copy of Form 970 (line **5a**), the attachment must include the following statement:

"I certify that to the best of my knowledge and belief (name of applicant) properly elected the LIFO inventory method by filing Form 970 with its return for the tax year(s) ended (insert date(s)) and otherwise complied with the provisions of section 472(d) and Regulations section 1.472-3."

Schedule D, Part III

Use the **D - III** screen to complete Part III (Method of Cost Allocation) of Form 3115, Schedule D. Part III is required for any entity submitting either Part I or Part II. Screen **D - III** consists of the following sections:

- Section A, Allocation and Capitalization Methods
- Section B, Direct and Indirect Costs Required to be Allocated
- Section C, Other Costs Not Required to be Allocated

Section A

Click the **D3-1 Attachment** link (Figure 45) to attach a description of the present and proposed methods used to capitalize direct and indirect costs.



Figure 45: Link to ATT screen for attaching statements

Sections B and C

Sections B and C consist of a series of drop lists under a **Present** column and a **Proposed** column. "Present" refers to the current accounting method, while "proposed" refers to the requested change in accounting methods. You should address only the items necessary; do not make a selection for any item for which an answer is not required for the entity's situation.

For each item in sections **B** and **C**, you can:

- **Select X** — If you select **X**, the corresponding box on Form 3115 will be marked with an **X**. (See Figure 46.)
- **Select B** — If you select **B**, the corresponding box on Form 3115 will be left blank and an attachment will be required explaining why the line was left blank. (EF messages will outline which statements are missing.
- **Select nothing** — If you select neither of the above options, “N/A” will appear in the corresponding box on Form 3115. No attachment is necessary for a box marked “N/A.”

	Present method	Proposed method
1 Direct material	X	N/A
2 Direct labor	X	N/A
3 Indirect labor	X	N/A
4 Officers' compensation (not including selling activities)	N/A	N/A
5 Pension and other related costs	N/A	N/A
6 Employee benefits	N/A	N/A
7 Indirect materials and supplies	N/A	N/A
8 Purchasing costs	N/A	N/A
9 Handling, processing, assembly, and repackaging costs	N/A	N/A

Figure 46: X was selected for column 1, lines 1-3; B was selected for column 1, line 4; nothing has yet been selected for any other line.

To attach a statement for section **B** or **C**, click the **D3-2 Attachment** link at the top of Section B (Figure 47). A single statement may contain all necessary explanations for sections **B** and **C**.

	Present	Proposed
1 Direct material	X	N/A
2 Direct labor	X	N/A
3 Indirect labor	X	N/A
4 Officers' compensation (not including selling activities)	B	N/A

Figure 47: If any box is marked “B,” click the **D3-2 Attachment** link to open the **ATT** screen and complete the fields for an attached statement.

Schedule E

Use screen **311E**, accessible from the **Other Forms** tab, to complete Schedule E, Change in Depreciation or Amortization.

NOTE

If changing this method under the automatic change request procedures, see the “List of Automatic Accounting Method Changes” in the IRS Form 3115 instructions.

Screen 311E Multi-Form Codes

Unlike the other **3115** screens, screen **311E** contains two multi-form code text boxes:

- **Multi-form code for 3115** — This box is applicable if the return contains more than one Form 3115. Enter the code for the instance of the **3115** screen with which this **311E** screen should be associated.
- **Multi-form code for Sch E** — This box is applicable if the return contains more than one Schedule E. (A separate **311E** screen should be used for each property.) Assign each property a separate code in its **Multi-form code for Sch E**. This code enables you to associate any attachments with the correct Schedule E property. (See “Attachments,” following.)

If the return contains more than one Form 3115 and multiple instances of Schedule E, both multi-code fields should contain numbers. Figure 48 shows that the third instance of a Schedule E is to be associated with the second Form 3115 in the return.

The screenshot shows a software interface for 'Form 3115 - Application for Change in Accounting Method'. Under the 'Schedule E - Change in Depreciation or Amortization' section, there are two text boxes: 'Multi-form code for 3115' containing the number '2' and 'Multi-form code for Sch E' containing the number '3'. These two boxes are circled in red. Below them is a section titled 'Schedule E - Line 4a' which contains three input fields: 'Type of property...', 'Year property was placed in service...', and 'Property's use in trade or business or income-producing activity...'.

Figure 48: Example of third instance of a Schedule E to be associated with the second instance of a Form 3115.

Completing Schedule E

The **311E** screen consists of four sections:

- **Schedule E - Line 4a** — Enter information on the type of property, the year it was placed in service, and the property's use.
- **Schedule E - Change in Depreciation or Amortization** — This section covers all Schedule E items other than lines 4a and 7. Note that lines **5** and **6** are links to required attachments.
- **Schedule E - Line 7 - Present Method** and **Schedule E - Line 7 - Proposed Method** — For the line 7 sections, enter information on the **Present Method** and **Proposed Method** in the supplied text boxes and choose the applicable convention from the **Applicable Convention** drop list. Options are as follows:
 - **HY** — Half-Year
 - **MM** — Mid-month
 - **MQ** — Mid-quarter
 - **S/L** — Straight line

Attachments

Attached statements are required for many Form 3115 items. Depending on the nature of the attachment, you will attach statements to the form in one of two primary ways:

- **From data entry** — The **ATT** screen is the most common screen for attaching statements to Form 3115. The **ATT2** screen is used for Part II, line 12, and Part

III, line 23b. (See the “Parts I and III” on page 57 and “Parts II and IV” on page 61 sections for more information on completing the **ATT2** screen for these items.)

- **From View mode** — Used for PDF attachments.

ATT Screen Attachments

There are two ways to access the **ATT** screen in Drake:

- **From the Data Entry Menu** — In the **Change in Accounting Method** section of the **Other Forms** tab, click **ATT**.
- **From the line that requires an attachment** — As shown in Figure 49, some lines have attachment links. Click an attachment link to open the **ATT** screen.

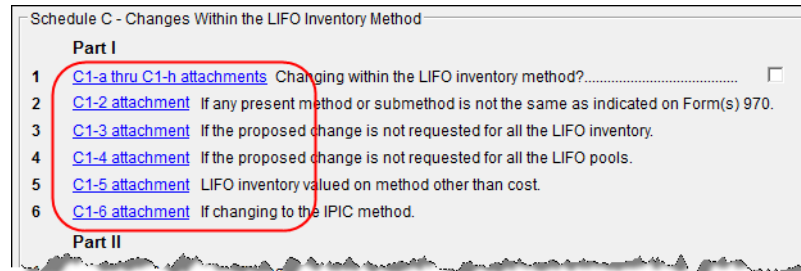


Figure 49: Attachment links from Schedule C (screen A, B, C)

NOTE

Not all lines that require statements include a link to the **ATT** screen. Always check the field-level help (press F1 in a field) to determine if a statement is required. The program produces an EF message if any required statements are missing.

Complete the following **ATT** fields, as applicable, for all **ATT** screen attachments:

- **Multi-form codes** — Use these boxes to associate the attachment with an instance of Form 3115 (if the return contains more than one), a particular Schedule E property (if the return contains more than one Schedule E), or both.
- **Schedule** — Select the line of the form or schedule with which the attachment is to be associated. If an item begins with a number, it refers to the part of Form 3115 (for example, **2-4e** refers to Part II, line 4e). If it begins with a letter, it refers to a particular Form 3115 schedule (for example, **C2-b** refers to Schedule C, line 2b; **C2-5** refers to Schedule C, Part 2, line 5).
- **Explanation** — Enter the statement explanation. If the explanation requires more than 900 characters, press PAGE DOWN for a second screen.

NOTE

If the explanation requires more than seven screens, only the first 6,500 characters of the explanation are transmitted with an e-filed Form 3115. There is no character limit for paper-filed returns.

Additional ATT Fields

The **ATT** screen has a separate section to be used only for Part II, line 10. The IRS requires that the attached statement, in addition to providing an explanation, include the taxpayer's name and ID number. Enter the name and ID number, and indicate if the ID number is an EIN, in the applicable fields at the bottom of the **ATT** screen (Figure 50 on page 67).

For STM 2-10 (Part II, line 10 statement) ONLY

Name.....

ID number..... ☐ EIN

Figure 50: Special section for entering taxpayer name and ID number for Part II, line 10; located at bottom of the **ATT** screen.

PDF Attachments

Some Form 3115 items require the attachment of documents that cannot be created in Drake Software; for example, line 4d of Part II requires written consent from a director. You can, however, attach such a document to the form as a PDF.

See the **PDF** screen for directions on generating and attaching PDF documents. Click the **Screen Help** button for directions on converting other types of documents into PDF.

NOTES

Do not enter data on the **PDF** screen itself. If using the directions provided on that screen, skip Step 2 of the “Completing the PDF Screen” section, which instructs you to fill out the columns at the bottom of the **PDF** screen.

A PDF document may be attached using any filename. When you attach the document, the program automatically assigns it the filename required by the IRS.

When the return is generated, an “EF Attachments” worksheet is produced. (See Figure 51.) This worksheet shows, in table format, the **Reference** (section of Form 3115), the **Description**, and the IRS-required **Filename** of each required PDF document. This worksheet is displayed as EF_PDF~ in View mode.

EF_PDF~		
(KEEP FOR YOUR RECORDS)		
EF Attachments		
Name of corporation EssBeeEss		
Reference	Description	Filename:
3115, III, Line 20	Proposed Change Documents	ProposedChangeDocuments.pdf
3115, II, Line 4d	Consents From Operation Div Dir	ConsentsFromOperatingDivisionDirector.pdf

Figure 51: Example of an EF Attachments worksheet

Notices of Missing Attachments

In addition to Form 3115 and related schedules and statements, the program produces EF Messages (as applicable) when the return is calculated. All forms, schedules, EF messages, and worksheets are accessible from View mode.

EF Messages for Form 3115 provide information about required attachments (including PDF attachments) that are missing from the return. Some messages list all statements required for a particular section but do not indicate which statements, specifically, are missing. To best understand which attachments are still required,

compare the **ATT** screen and the EF_PDF~ worksheet to the list on the EF message page.

NOTE

All EF Messages must be eliminated before the return is eligible for e-file. EF Messages for Form 3115 attachments are eliminated when all required statements have been attached to the return.

This page intentionally left blank.

Appendix A: Trial Balance Import

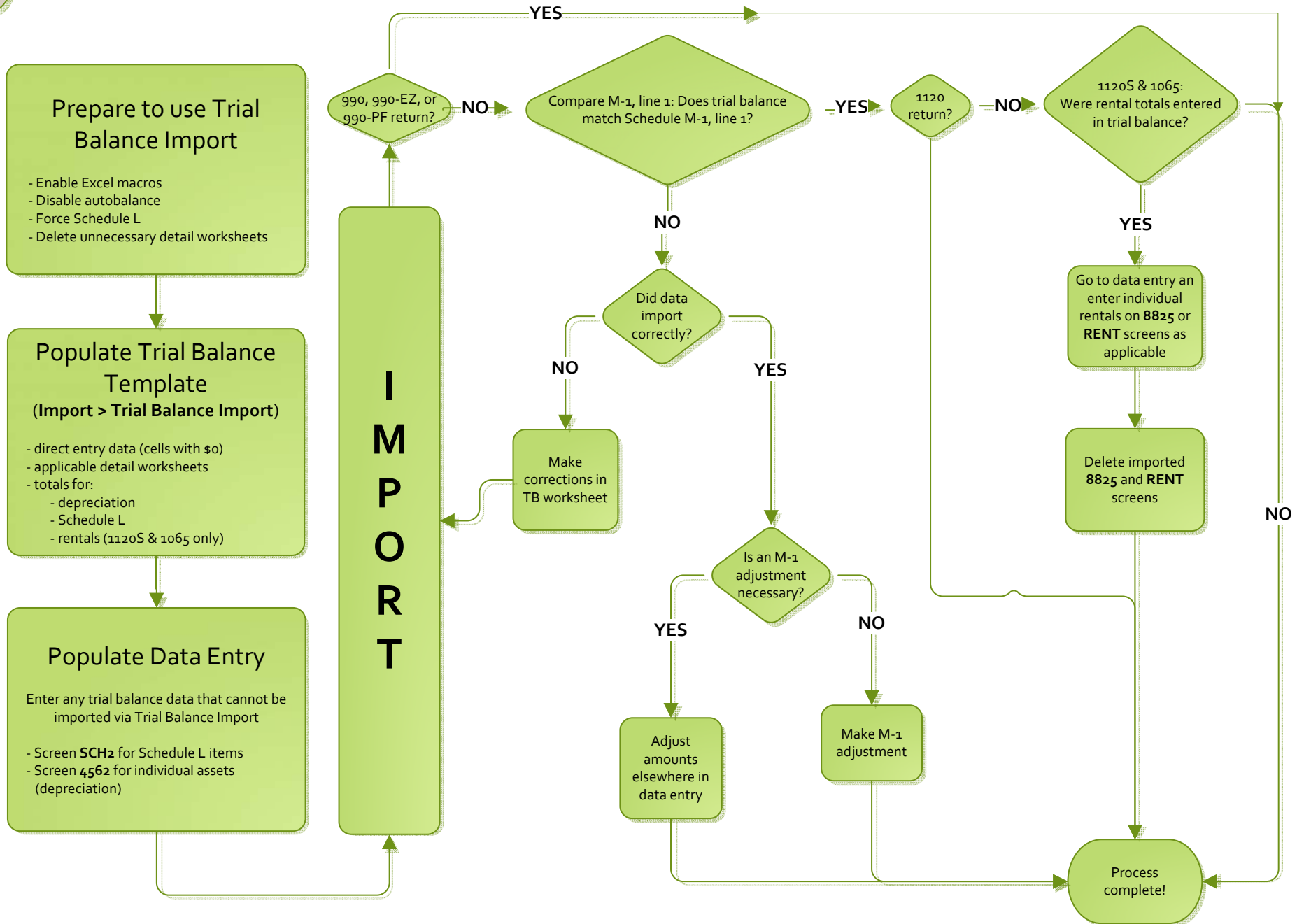
The trial balance import allows data to be imported into a corporation tax return from a trial balance worksheet.

Drake's specially designed trial balance template and importing function has the following benefits:

- Eliminates the need to duplicate entries
- Eliminates data entry errors by automatically importing data to the correct fields
- Allows preparers to merge basic accounting functions with tax preparation

See next page for a flow chart describing the use of the trial balance import.

Trial Balance Import: General Process



Index

Numerics

52-53-week year returns 41

A

accounting method

changing 56–67

entering 6

accumulated adjustments account (Schedule M-2) 32

address

change of 6

e-mail 20

entering on Form 1120S 5

foreign 23

on K-1 letter heading 26

out-of-state 5

adjusted basis worksheet 26, 40

adjustments

depreciation 30

section 481 8

to income and expenses 36

advertising expenses 12

amended

1120S returns 6, 17

K-1 letters 26

amortization 12, 28

analysis of accounts (Schedule M-2) 31–34

asterisks (on K-1 codes) 22

attachments

binary (PDF) 43–46

Form 8825 statements 36

to Form 3115 56, 62

auto-balance 29

B

bad debts 8, 10

basis 26–27

see also adjusted basis worksheet

binary (PDF) attachments 4

book-to-tax differences (Schedule M-1) 29, 30

business activity codes 6

C

calendar-year returns 5

cash (accounting method) 60

Change in Accounting Method 56–63

change of name or address 6

charitable contributions 21

Client Communications Editor (for letters) 26

codes

business activity 6

error/reject 42

K-1 22, 40

miscellaneous (screen 1) 5

multi-form 34, 64, 65

state 19

compensation of officers 9

compensation of shareholders 9

contact information (for state returns) 20

cost of goods sold, *see* Schedule A (Cost of Goods Sold)

cover letters (K-1) 25

coversheets 40

credits 36

Ctrl+W (detail) worksheets 7, 8, 47, 61

D

data entry

for state information 18

importing trial balance into 46–56

dates

of incorporation 6

payment (changing) 15

tax year 5

decrease to basis 27

deductions 9–12

depletion 12

depreciation 8

and auto-balance errors 29

expense 11

for cost of goods sold (Schedule A) 7

of rentals 34

on short-year returns 6

printing Form 4562 40

trial balance (business returns only) 54

detail (Ctrl+W) worksheets 7, 8, 47, 61

direct debit of balance due 15–16

direct deposit of refunds 14

distributions 31

domestic production activities deduction 24

due dates 15

E

e-filing

- Form 1120S 41
- PDF attachments 43–46
- statements 28

Elections

- Safe Harbor 39

elections 37

- Safe Harbor 37
- statements 38

electronic

- funds withdrawal 15–16
- signatures (PIN) 16

employer identification number (EIN) 6

envelope coversheets 40

error codes 42

ES Screen 3

Estimated Taxes 3

estimates

- 2008 tax 13
- underpayment of 14

expenses 9–12

exporting K-1 data 23

extensions 16

F

filing instructions 40

final return 6

fiscal year returns 5

foreign

- addresses for shareholders 23
- transactions 15, 21

Form 1125E 40

Form 2553 (Election by a Small Business Corporation) 4, 6

Form 3115 (Application for Change in Accounting Method) 56–67

Form 4136 (Credit for Federal Tax Paid on Fuels) 14

Form 4562 (Depreciation and Amortization) 34, 40

Form 4797 (Sales of Business Property) 8

Form 5884 (Work Opportunity Credit) 37

Form 6478 (Alcohol and Cellulosic Biofuel Fuels Credit) 8, 36

Form 6765 (Credit for Increasing Research Activities) 37

Form 7004 (Application for Automatic Extension of Time to File) 16

Form 8050 (Direct Deposit of Corporate Tax Refund) 14

Form 8820 (Orphan Drug Credit) 37

Form 8825 (Rental Real Estate Income and Expenses of a Partnership or an S Corporation) 34–36

Form 8844 (Empowerment Zone and Renewal Community Credit) 37

Form 8845 (Indian Employment Credit) 37

Form 8846 (Credit for Employer Social Security and Medi-

care Taxes Paid on Certain Employee Tips) 10, 37

Form 8864 (Biodiesel and Renewable Diesel Fuels Credit) 8, 36

Form 8873 (Extraterritorial Income Exclusion) 12

Form 8881 (Credit for Small Employer Pension Plan Start-up Costs) 37

Form 8903 (Domestic Production Activities Deduction) 24

Form 8912 (Credit to Holders of Tax Bonds) 36

Form 8912 (Credit to Holders of Tax Credit Bonds) 37

Form 8916-A (Supplemental Attachment to Schedule M-3) 30

Form 8932 (Credit for Employer Differential Wage Payments) 37

Form 8941 (Credit for Small Employer Health Insurance Premiums) 37

Form 8941 (Credit for Small Employer Health-Insurance Premiums) 12

Form T (Forest Activities Schedules) 12

G

gains and losses 8

gross receipts 7

H

header information 5

I

import, trial balance 46–56

inactive returns 40, 42

income 7–8

increase to basis 27

instructions for filing 40

insurance proceeds, income from 8

interest

expense 11

income 8

inventory 7

K

K-1, Schedule for 1120S 21–27

L

labor 9

letters (K-1) 25

M

maintenance costs 10

Multi-State Apportionment 19

N

name change 6
net operating losses (NOL) 34
next-year depreciation listing 40
number of shareholders 6

O

officer compensation 9
ordinary gains and losses 8
other
 adjustments account 33
 costs (Schedule A) 7
 income (loss) 8
ownership
 percentages 10

P

passive income 13
PDF (binary) attachments 4, 43–46
percentage, stock and ownership 10
PIN (electronic) signatures 16
printing
 cover letter for K-1 26
 K-1 items 22
 line 22a worksheet 13
 statements for Schedule L 28
 suppressing/forcing documents 40

R

real estate 54
receipts 7
references to forms and worksheets 40
refunds
 direct deposit of 14
 state tax 8
reject codes 42
rent paid on business property 10
rental activities 34–36
repair costs 10
retained earnings reconciliation (worksheet) 40
returns
 52-53-week year 41
 amended 17
 bankruptcy 41
 extensions for 14, 16
 fiscal and calendar year 5
 inactive 42
 short-year 5
 signing 16
 tax-exempt organizations (990) 43–46
 updating prior-year 4

revocation of S election 6

S

S corporation
 changing to 4
 electing as 4
 termination of 6
Safe Harbor 39
Safe Harbor Elections 37, 39
scanning (PDFs for e-filing) 43
SCH2 screen (for Schedule L) 28
Schedule B (Other Information) 18
Schedule D (Capital Gains and Losses and Built-In Gains)
 Parts I, III, and III 13
Schedule D, Form 3115 61
Schedule K (Shareholders' Pro Rata Share Items) 20–21
Schedule K-1 (Shareholder Information) 21–27
Schedule L 40
Schedule L (Balance Sheet per Books) 27–29
Schedule M-1 29, 40
Schedule M-2 31–34
Schedule M-3 31
schedules on Form 3115 60–64
section
 179 income limitations 9
 481 adjustments 8
shareholders
 adjusted basis worksheet 26–27
 compensation of 9
 foreign addresses for 23
 multiple 22
 number of 6
 Schedule K-1 21
 updating data annually 27
short-year returns 5
signatures, electronic 16
state
 address 5
 codes 19
 -specific information 18
 tax refunds 8, 14
statements
 elections 38

T

tax
 and payments 13–14
 on fuels, credit for 8
 returns, *see* returns
 years (fiscal vs calendar) 5
taxes and licenses 10
termination of S election 6

trial balance import
and depreciation 8
and Schedule L 27, 29
instructions for using 46–56

U

underpayment of estimated tax 14
undistributed taxable income previously taxed 33
updating
an 1120S return 4
shareholder data annually 27

V

vouchers 13

W

wages 9